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Negotiating and Programming Food Aid:

A Review of Successes

Final Report on Results of Five Evaluative Case Studies

Bureau for Food for Peace and Voluntary Assistance
Agency for International Development
Washington, D.C. 20523

Negotiating and Programming Food Aid

A REVIEW OF SUCCESSES

Final Report on Results of Five Evaluative Case Studies

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PREFACE

This report summarizes the conclusions and recommendations of five studies of the PL 480 food aid program--Haiti, Mali, Pakistan, Tunisia and Zambia. The studies stress the process of identification, negotiation, implementation and reporting on the self-help provisions and on the programming and monitoring of local currency use.

The study series specifically does not attempt to assess program impact. In some individual country cases, observations, or comments on program impacts were presented orally or in written form at the Mission's request. Neither was the study series designed to cover special issues such as the so-called Bellmon amendment (section 401B) which deals with the adequacy of storage and possible negative effects of food aid[1]. The first two studies, one of the Tunisia Title I program, the other of the Mali Title II, Section 206 program were carried out as pilot efforts, to test whether the study approach would generate information that would be useful in guiding PL 480 program operations and in designing the methodology for a second phase, should a decision to proceed be made. The pilot effort was reviewed positively, and three additional countries selected and visited--Haiti, Zambia and Pakistan.

The objectives that oriented data collection and analysis for the studies were:

- To assist AID and host countries to understand better how PL 480 resources are being programmed, including the identification, negotiation and monitoring of self-help provisions and the mechanisms developed to program and manage local currency sales proceeds.

- To provide other AID Missions and host countries with information useful for replication of successful experiences in the use of Titles I and III as a development "tool", for improvements on past performance, and for the identification of likely pitfalls in the process.

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1 An earlier five country PL 480 impact evaluation series was carried out to assess impacts. Five individual country reports were published covering Bangladesh, Egypt, Jamaica, Peru and Sri Lanka. A general study on impacts and a summary of the comparative results was published in December 1983. An eight country study of program loan impacts was published in 1970 and also has major relevance to the present study.

COUNTRY SELECTION

The Agency used the following criteria to select countries for the case studies:

- o Country programs included would be representative of each of AID's major geographic regions;
- o Programs had been or would be in operation long enough for substantial data to be available for analysis;
- o There was consensus in the Agency that the programs had been successful;
- o Programs selected would reflect different approaches to using PL 480 resources for development; and
- o Programs would be sufficiently representative that generalizations from the studies would be useful for other country settings.

Two other considerations were that the programs were reasonably well documented, and that professional people familiar with the programs were available for consultation.

Though this five-country study series can not be assumed to be representative of developing countries as a group, nor of all PL 480 programs, we believe that the conditions and recommendations garnered from this effort have potential applications for PL 480 and other types of U.S. program assistance in other country settings.

STUDY APPROACH

Based on the first two pilot case studies, an inclusive set of questions, organized in terms of key issues to be addressed, was developed to guide data collection and analysis (see Annex A). While the set of questions was to be used as a guide for all of the case studies, it was expected that the nature of each individual country program, and the types of data available about it, would condition the relative weight given to each issue, and thus, each sub-set of questions.

For each of the five countries, two-to-three-person teams were assembled by RONCO Consulting Corporation. In Zambia, RONCO's team was complemented by the presence of Forest Duncan of FVA/PPE. These teams started by interviewing personnel in Washington with responsibility for the country programs. Thereafter, they visited each country for 2-3 weeks, assembled U.S. PL 480 and other program documents, cables, agreements and minutes, annual and interim reports, etc. from the AID Missions, country planning documents, progress reports, as well as annual agreements and official minutes, available program-related studies, and government statistical and other relevant reports from the HC government. After reviewing this very extensive documentation, meetings were scheduled with host government officials, other-donor representatives and USAID and U.S. Embassy officials involved in PL 480 and other U.S. assistance programs.

The pilot and Phase II studies were designed to emphasize the process of identification and negotiation of Self-Help Measures and appropriate benchmarks for evaluation of success in meeting the Self-Help Measures. In each case study, an effort was made to set the stage in terms of the country development setting, recount the events and related interaction, as well as draw conclusions. Much of the information included was gleaned from individuals who were interviewed about the process some years after it had taken place. Hence recall sometimes was a problem for early years, but the substantially corroborating documentation was located in most countries. Generally, there was considerable consensus in oral accounts. The pilot phase studies have been published together as a single report covering Mali and Tunisia conclusions. For Haiti, Pakistan and Zambia, an individual report was prepared for each country case study.

ACKNOWLEDGEMENTS

The authors wish to express their appreciation to the many people in the Governments of the five countries and the U.S. Country Teams who were so generous with their time, and frank in their discussions with us. We wish particularly to express our appreciation to Judith Gilmore for giving generously of her time to discuss organization and issues and otherwise assist us and to Forest Duncan who, in addition to assisting in the Zambia case study, contributed useful organizational and substantive ideas for the project as a whole and for the final report.

ACRONYMS

AID/W	AID/Washington
BOP	Balance of Payments
CIP	Commodity Import Program
DA	Development Assistance
DCC/FA	Food Assistance Subcommittee of the Development Coordination Committee
ESF	Economic Support Funds
FFP	Food for Peace
FSN	Foreign Service National employee
FVA/PPE	Food for Peace and Voluntary Assistance Bureau, Office of Policy Program and Evaluation.
GOH	Government of Haiti
GOP	Government of Pakistan
GOT	Government of Tunisia
GRM	Government of the Republic of Mali
GRZ	Government of the Republic of Zambia
HG	Host Government
LC	Local Currency Sales Proceeds
MFA	Ministry of Foreign Affairs
MOA	Ministry of Agriculture
MOP	Ministry of Plan
PL 480	Public Law 480
SHM	Self-Help Measure
USAID	U.S. Agency for International Development
USG	United States Government

OVERVIEW

BACKGROUND

Food Aid provided under Public Law 480 (PL 480) by the United States Government is one of the major forms of programmatic assistance managed by AID. Title I of the PL 480 program provides for concessional sales of various commodities to recipient countries which then resell these commodities locally. Such local sales generate local currency sales proceeds which, in turn, can be programmed to support developmental activities in the recipient country.

In 1984, AID's Bureau for Food for Peace and Voluntary Assistance, which manages the PL 480 program in Washington on behalf of an inter-agency committee, contracted with RONCO Consulting Corporation to carry out a series of case studies of apparently successful PL 480 programs, primarily of the Title I variety. The purpose of these studies was to generate conclusions and recommendations that would assist AID and recipient countries to improve design and implementation of such programs, and to enhance their development impact. An additional aim was to see whether lessons learned from these studies could provide insights about the better use of other types of program assistance as well.

Studies were done of the Title I programs in Tunisia, Zambia and Pakistan, and a study of both Title I and Title III was done for Haiti. Mali's Title II, Section 206 program was also included, since in some ways it is similar to Title I programs elsewhere. These cases were selected because there was general consensus within the Bureau that they had successfully generated policy reforms through the process of identifying and negotiating Self-Help Measures to be included in program Agreements, they were relatively long-lived and well-documented, and they were geographically representative. Also, these AID field missions were interested in being included in the case study sample.

This report presents the key findings and recommendations of these five case studies regarding the <u>processes</u> of identification, negotiation, implementation and monitoring of Self-Help Measures, and the identification, implementation and monitoring of programmed local currency sales proceeds (LC). Where appropriate, recommendations are categorized as those applicable respectively to AID Mission, AID/W and DCC/Food Assistance Subcommittee actions. The report also takes into account the host government perspective, and includes some recommendations for USG actions that will facilitate the more effective participation of HG counterparts in these bilateral processes.

This summary presents key conclusions and recommendations by component of the Self-Help and Local Currency programming processes, taking each in turn in the order in which they normally occur. Broader, programmatic recommendations for AID and the DCC are presented at the end. The executive summaries from each of the five case studies are included as annexes to the report. Since each program is fairly complex, we urge interested readers to consult particular case study reports in their entirety.

SELF-HELP MEASURES

THE IDENTIFICATION PROCESS:

A crucial basis for program success is the identification of appropriate Self-Help Measures (SHMs) for inclusion in bilateral PL 480 Agreements. These are the actions the host country government agrees to undertake to improve its own developmental performance. Increasingly, with AID's emphasis on policy reform and policy dialogue, these deal with macro-economic policy issues, or with significant policy issues which relate specifically to the performance of the country's agriculture sector. Sometimes, however, other sectors are included, since the US legislation embodies a number of developmental purposes and concerns aside from agriculture.

Identification of SHMs occurs in a number of ways. Guidance may come from the DCC through AID/W and the USDA to the field mission (Haiti); the U.S. country team, including the Embassy, may have already identified key policy agenda items that are cast as SHMs to be negotiated under the PL 480 program (Tunisia, Zambia); the AID Mission itself may, on the basis of its own sectoral or multi-sectoral analysis, identify a set of policy measures that should be undertaken to improve agricultural production and productivity, and/or improve other HG programs (Zambia, Pakistan, Haiti, Tunisia). In some cases, such analyses are carried out in collaboration with the HG ministry or other entity concerned with the sector.

Generally, the case studies show that those programs are most successful in which the SHMs are:

- o Based on thorough joint USG/HG analysis of underlying sectoral constraints and policy parameters, which in turn guide the policy dialogue that takes place during negotiation of a PL 480 Agreement;

- o Draw heavily on HG Plan objectives and targets, for which there is already support and momentum;

- o Limited to a few important and logically consistent policy-related goals for which easily-measured benchmarks are provided;

- o Stick with essentially the same set of SHMs for several years, so that USG support for them is underlined, and the HG has time to carry them out effectively;

All of these characteristics are more readily achieved where the USG has demonstrated its confidence in the given program by making a multi-year commitment to it as was the case in Mali, and Pakistan. Even where Washington is not willing to commit funds on a multi-year basis, the joint development of a multi-year program strategy tends to have the same beneficial result, as has been true in Tunisia until this year. This will work so long as funding levels are not drastically reduced over the strategy period, undercutting local U.S. mission assurances of good faith efforts. Conversely, where there is a multi-year funding commitment but no mutually-agreed multi-year strategy, self-help performance may be less than would otherwise be possible, as in the case of Pakistan, where geopolitical concerns can be seen by both governments as over-riding.

THE NEGOTIATION PROCESS:

Various negotiation approaches are represented by the five cases. In Mali, the USG was represented almost exclusively by the Ambassador throughout the negotiation of U.S. involvement in the multi-donor cereal marketing stabilization program to which Title II, Section 206 contributed. In Haiti, AID took the lead both for Title I and Title III, involving private-sector Haitian technical analysts in sector reviews leading to policy reform SHMs that were iteratively discussed with the GOH. Tunisia's multi-year strategy document was prepared by an American consultant, but in close association with USAID staff and HG counterparts in the Ministry of Agriculture. In Zambia, which had the smallest U.S. Mission, the AID Director carried the ball in the negotiation process for several years, but design was assisted by TDY personnel from AID/W and REDSO, who also worked on related CIP program design and evaluation. In Pakistan, where the program is 34 years old, each new annual negotiation may be somewhat pro forma, but the process has involved the Director's Office, the Program Office (which manages PL 480) and the Agriculture Office. Agriculture has made an important contribution to the identification and negotiation of SHMs in the Pakistan case, even though the leadership for negotiation came from the other two parts of the Mission mentioned.

Who is best involved in the negotiation process at which point in time will depend to a great degree on the size of the U.S. country team and on which of its members has been involved in the SHM identification process. At the same time, from the HG side, who should be involved will depend on the structure of the HG and its depth--in some countries, the civil service is much more highly elaborated than is the case in others. A choice is also usually made between working with a line technical ministry, such as Agriculture, or with a central ministry such as Plan, Finance or Foreign Affairs. These choices depend on other relationships between the U.S. team and the host government, and on the team's assessment of which entity has the most clout both for negotiation and for implementation.

Generally, the case studies demonstrate that:

- o Setting the stage for the negotiation is important, and can be done best by technicians during the analysis and identification phase;

- o Negotiations proceed best where principal U.S. officials involved are perceived as having really mastered the intricacies of HG policy and problems, as well as its development history and trajectory;

- o Negotiations are most successful and least protracted where proposed SHMs and other features of the Agreement are discussed in advance with HG officials, and informal consensus reached despite the tendency for negotiating instructions from Washington to be judged as confidential;

- o Additional momentum for agreement is created by HG perception that the U.S. takes the process seriously, but will not react punitively if best efforts at meeting benchmarks fall somewhat short of the mark;

- A history of frank bilateral discussion (dialogue) on other programs or projects helps to facilitate negotiation of PL 480 Agreements even where some SHMs will require the HG to make very hard choices;

- Where such "sacrifices" are backed up by jointly-programmed local currency sales proceeds, both negotiation and subsequent implementation tend to be more successful.

A caveat is that where donors do too much to minimize such sacrifices, as may have been the case in Mali, the host government may actually become less inclined over time to take effective action. In other words, there must be a balance between suasion and "leverage" in the stance and actions of the USG as a party to the negotiation process and, especially, as implementation proceeds.

IMPLEMENTING SELF-HELP MEASURES:

Policy shifts and reforms do not take place overnight, and the impact of such reforms may take years to be realized. Increasing margins for private-sector vendors of fertilizer in Tunisia shows results fairly quickly in terms of increased private-sector sales, but the ultimate impact in terms of increased agricultural production will inevitably take longer to emerge. Liberalizing the coffee market in Haiti by reducing the coffee tax on a multi-year basis may or may not have the effect of increasing tree crop production and thus decreasing environmental degradation on Haiti's hillsides. The introduction of producer price incentives in Zambian agriculture may or may not increase production depending on other micro- and macro-economic variables as well as social and political factors beyond the control of either the GOZ or the USG.

The inter-relatedness of policies and their potential (and actual) impacts and the time-frames in which they are likely to take effect must be recognized when PL 480 programs are being designed and negotiated. Otherwise, even the most earnest and skilled host country government may not be able to obtain the results the SHMs are designed to achieve in the time allotted. This is an instance where realism is probably as important as is good underlying analysis when the implementation stage is reached.

Often, the USG role in SHM implementation is limited to observation or monitoring, and there is nothing that can be done until the HG Self-Help Report is received at the end of the Agreement year. In some of the cases studied, however, the AID Mission took a more active approach to monitoring, by involving staff or consultants in joint evaluations six months or so into the Agreement year. Where such evaluations showed that the HG was having difficulty meeting SHM benchmarks, mid-course adjustments could be made to help solve the problem. This not only helps both parties to save face, which is not irrelevant, but is also likely to improve self-help performance.

In Zambia, the same SHMs were emphasized in both CIP and PL 480 agreements. Similarly, in Tunisia, at least some overlap or complementarity exists between the policy reform SHMs and related LC expenditures programmed under PL 480 and the DA and ESF-funded AID program. This kind of integration can significantly increase the ability of the host government to mobilize the political and financial resources to carry out difficult policy reforms. It may also facilitate monitoring by the AID field mission, since monitoring of the regular portfolio of projects will permit flagging of problems or improvements in self-help performance under PL 480, as has occurred in Haiti.

In Pakistan, SHMs were directed at encouraging liberalization of edible oils policies, but the AID Mission was not permitted to support oil seeds production directly because of domestic pressure placed on Congress and USDA by representatives of U.S. soybean growers. This probably had a limiting effect on what could be gained in the policy area, even though very recently, policy shifts have been announced by the GOP. Thus, it is important to assess arguments against an activity that might enhance Self-Help performance under PL 480 in terms of potential cost to the success of the PL 480-supported policy dialogue as well as in terms of other substantive or political factors.

For identification, negotiation and implementation and monitoring of self-help performance under PL 480 agreements, there must be a balance between U.S. mission and host government human resource commitments. Performance seems to be enhanced, on the whole, where there is sufficient staff attention available from the U.S. side to encourage commensurate attention from the HG side. In very small U.S. missions, this may pose a problem, especially as far as pre-identification analysis and post-negotiation monitoring are concerned. Creative use of consultants, TDY personnel and existing direct-hire staff may be required for adequate performance even in larger missions, but are crucial for smaller ones.

The recommendations that emerge from the case study analyses of SHM implementation and monitoring are that:

- o Where possible, Foreign Service National officers with long experience of the PL 480 process should play a major role in monitoring and evaluation, as has successfully been done in Haiti and Pakistan;

- o Where direct-hire staff resources are insufficient on the U.S. and/or the HG side, use of U.S. TDY staff or private sector consultants be funded on a continuing basis to assist in monitoring and evaluation of self-help implementation by the host government, as was successfully done in Tunisia and Zambia.

- o Integration of SHMs under PL 480 and policy implications of DA and ESF-funded projects should be achieved where possible to facilitate HG performance on policy reform in a particular sector.

- o Other donors be encouraged to assist the HG in achieving PL 480 self-help objectives where possible, as was done in Mali with the multi-donor cereals program.

- o Where necessary, the HG officials responsible for self-help reporting should be assisted in making such reports more substantive so that performance on SHMs will emerge more clearly from them. Sometimes, staff in the implementing line ministries do not have a very clear idea of what is expected of them in this area. Improved guidance designed specifically for HG officials could help resolve such problems.

- o Timing of HG reporting on Self-Help performance should, where possible, be adjusted to fit in with HG schedules rather than meeting USG scheduling convenience. Similarly, timing of reporting should relate to issues in question in the particular agreement and country--e.g., coincide with the agricultural calendar, the HG fiscal year.

LOCAL CURRENCY PROGRAMMING AND MANAGEMENT

BACKGROUND AND ISSUES

Recent discussions of AID policy regarding local currency sales proceeds from PL 480 and local currencies generated from other

AID programs, have led to some shifts in the Agency's policy stance. Greater attention is being given to LC programming since from 1985-87, it is anticipated that annual expenditures of LC will be about $2 billion. (This estimate includes local currencies generated by ESF/DA programs and projects and by PL 480 sales proceeds.) With likely declines in future DA funds availability due to Gramm-Rudman, PL 480 local currency programming will probably increase in importance.

The five case studies provide supporting evidence for some of these new policy orientations, as well as providing data that have additional implications for LC programming and management practice. Here we are less concerned with the impact of LC proceeds once attributed or "microprogrammed" than with the programming and attribution processes. We also make the distinction between attribution and/or microprogramming, which logically occurs first (although this is not always the case, as will be seen), and LC management.

The recent Administrator's Local Currency Policy Review (March 1986) may result in considerable policy clarification and better communication of this policy to the field.

ATTRIBUTING AND PROGRAMMING LC PROCEEDS:

In four of the five PL 480 programs studied, the USG has been closely involved in either the attribution of LC sales proceeds, or in what is now being referred to as microprogramming of such funds. This is impressive since, over the lives of these programs, AID guidance on this matter has varied. Recently, AID's view was that under Title I at least, the LC proceeds belonged to the recipient country, not to the USG. Thus, the local U.S. Mission could only participate in programming these funds. Apparently, AID/W's view is now changing toward one which stresses joint microprogramming of LC funds since they are now seen as belonging to the recipient country only in the most legally technical sense. The consensus of senior management seems to be that they are to be taken as seriously as any other development funds by AID field staffs.

SPECIAL ACCOUNTS:

Another key issue which has received some debate is whether or not LC proceeds from PL 480 commodity sales should be placed in "special accounts" or not. Those who favor this approach believe it makes accountability easier, and enhances the likelihood that such funds will actually be expended on the mutually-agreed purposes. Those who reject the special account approach indicate that considerable good will may be sacrificed by trying to force an unwilling recipient government to establish such an account, whereas the anticipated trade-off in accountability or measurable additionality will not be commensurate. That is, placing funds in such an account does not guarantee what they will be spent on, since in a real sense all funds available to a government are fungible. The case studies seem to demonstrate that it is less the special account that helps assure appropriate use and accountability, where there is one, but rather the quality of the negotiation process and the joint programming process for LC, followed by consistent US mission staff monitoring and/or management of LC use.

ADDITIONALITY:

Related to the special account issue is the broader question of the additionality requirement. Additionality may be defined as a "new relative expansion of important development-oriented activities and/or...appropriate policy reforms above and beyond what otherwise would have occurred" (Administrator's Local Currency Policy Review, Issues Paper March 1986). PD 5, the current guidance on local currency programming, indicates that this requirement applies not only to the substance of SHMs, but also to LC programming. A more recent assessment of the relevant legislation by the AID General Counsel indicates, however, that the requirement does not apply to local currency uses. This was an issue in the Haiti program.

TIMING

Timing of actions that generate and determine the amount of local currency proceeds available is another important issue. There are several distinct stages in the PL 480 process at which delays may occur that will ultimately affect the programming, management and use of local currency proceeds. First, there is the timing of approval of the commodity level for a given program. Next, there is the timing of the purchase of these commodities, which affects their purchase price in the U.S.. Then, there is the timing of their sale in the recipient country, which may have an effect on the total amount of local currency proceeds generated, as well as on when and how they will be used. This, in turn, has implications for inflation.

Here, we will give the highlights of case study results as these apply to the issues raised, and then the study recommendations.

Until 1983, in Tunisia LC was attributed to various parts of the GOT budget after the fact. More recently, microprogramming of such funds has been carried out as part of the annual negotiation process, and procedures have been put in place to ensure that such funds, once programmed, actually are available to be expended by the Tunisian entities in question. Similarly, in Haiti, both under Title I, and now under Title III, Mission staff have been closely involved in the entire LC process, especially because a large proportion of the LC proceeds are used as HG counterpart funds to support DA-funded projects. This heavy AID involvement in the microprogramming process has had important staffing implications, as would be the case elsewhere if a similar level of effort were made to program and manage LC proceeds in support of a medium-sized DA program.

The Haiti program also indicates that improvements may be required even where there is already a special account. Thus, after eight years of a Title I program, AID Mission staff worked hard to ensure that LC proceeds actually got into the account quickly, and were thus available for joint programming and for use in connection with project activities on a relatively timely basis. While there are still some problems, under the new Title III program, considerable progress seems again to have been made in this regard.

In Zambia, there are local currency proceeds available both from the sale of PL 480 commodities and from the CIP program. This is also the case in Pakistan. In both countries, the magnitude of LC generations available for joint microprogramming is such that the USG is at risk of becoming overly involved in the respective countries' internal budgeting processes. In each case, mutual USG and HG accord is reached on LC uses after the annual PL 480 agreement has been signed. In Pakistan, this is usually done within two weeks of agreement signature, while in Zambia, there may be time lags between signature of the agreements for the PL 480 and CIP programs, the generation of LC proceeds, and their subsequent use.

In the case of the Pakistan program, and to some extent in those of Mali and Zambia as well, the timing of signature of agreements has had a negative affect on the price paid by the USG--and thus ultimately to be reimbursed by the recipient country--for the commodities provided under PL 480. Long delays in approval of annual proposals in Washington have other adverse effects, including disruption of the momentum of the policy dialogue, and commensurate delays in the programming of LC. When such delays occur, it is often too late for LC proceeds to be programmed appropriately given the host government's budget approval cycle. This has been the case in Tunisia, and also in Haiti. Since current AID policy is that "AID involvement in programming local currency is not an end in itself, but rather a tool for structuring an overall host country budget that represents a sound, development-oriented allocation of budgetary resources", being too late with respect to the HG budget process is particularly unfortunate (Administrator's Local Currency Policy Review, Issues Paper March 1986). It is also noted that:

> "Agreement on the use or general allocation of local currency proceeds needs to be reached at the same time as negotiation of the overall commodity agreement: otherwise, subsequent efforts to influence or even effectively audit local currency use (e.g., via use of special accounts) are easily frustrated and can require the dedication of significant AID direct hire resources" (Ibid., p. 3).

MANAGING LOCAL CURRENCY USE:

Managing the use of local currency sales proceeds is the last intervention point in the process, except for ex post auditing. In most of the cases studied, AID staff did not really attempt to manage LC in the sense of exercising direct control. The exception is the case of Haiti, where such management was necessitated both by the fact that most of the LC was used as GOH counterpart for the DA-funded project portfolio, and by the fact that the GOH management capabilities were too weak to do the job adequately. The study showed that the additional burden placed on AID mission staff by this de facto obligation to manage LC proceeds was considerable, even though the FFP staff in the Mission included a full-time FSN officer whose primary responsibility was monitoring LC use.

As is the case with programming, a number of governments feel that having AID too closely involved in the management process for LC constitutes an unwarranted and deeply resented intervention in domestic affairs. Thus, in Pakistan, a low profile is maintained by the Mission, and LC proceeds are more often attributed against GOP budget categories than actually microprogrammed and managed.

From the host government point of view, managing LC proceeds can become extremely time-consuming. At one point, when the Title III program was being designed in Haiti, the GOH seemed willing to have the AID Mission take complete responsibility. In Tunisia, it has been difficult for MOA officials to spend the extra time required to ensure that LC proceeds programmed for particular purposes (agricultural research, improved extension, and the like) have really become available. Partly, this is because it is the MOP, not MOA that is responsible for approving and monitoring these kinds of funding allocations and expenditures. Partly, it is because the bureaucratic processes typical of host country governments are so complex and slow-moving that it is virtually impossible to ensure that funds are made available for research operating expenses, for example, in a timely manner. This is why in some countries studied, technicians in key ministries view PL 480 local currency proceeds as fictional funds. They believe that LC funds are never really included in the budget, or that they are never delivered to the end-user; or, if they are delivered, it is in lieu of other funds that were also anticipated. The truth seems to be that most end-user agencies are not clear on the impact of PL 480 LC allocations on their total budgets.

Solving these management problems requires a certain amount of creativity on the part of the US country team and that of the host government ministries involved in the PL 480 process. This takes time, and has staffing implications.

Overall, the case studies yield the following recommendations on the LC programming, monitoring and management processes:

- Large amounts of LC can cause programming problems, especially for the host government. Too much AID involvement in the process can be highly resented, and have negative effects on the policy dialogue. In such cases, AID might propose that all but "x" million of the LC proceeds simply go into the country's development budget with no further programming effort attached, while the rest be jointly programmed for mutually-agreed priority purposes that would be inadequately funded otherwise.

- Management of LC proceeds should be kept as simple as possible, as is the case in Pakistan, where really large amounts are involved. Sensitivity should be shown to the reporting burden placed by other donors on the host government as well as by AID, and assistance should be provided, by consultants if necessary, to enable the HG to report properly on LC use.

- The USG, through its country teams, should make attempts where possible to adapt its reporting requirements to the HG's accounting and budgeting procedures. This includes both the timing of reporting requirements, and the format in which data are required.

- Early joint programming is preferable to leaving LC programming until after the negotiation of the agreement. The main "leverage" is achieved when the resource transfer, in the form of the commodity financing level, is being negotiated. After that, the main influence the U.S. team has is in terms of the host government's anticipation of the next resource transfer, not the existence of the present local currency sales proceeds. At the level of the end-user HG agency, some leverage may be possible if it is clear to the agency that it will receive additional or more flexible resources as a result of PL 480 LC allocations.

- Using LC proceeds to meet the 25% HG counterpart requirement for DA-funded projects, as in Haiti, may constitute a liability, because of HG management problems and complex approval requirements which result in implementation problems. If this is done, a management system should be worked out with the host government such that these funds will really be available when needed for project implementation.

- More creative use should be made of LC proceeds to support other-donor efforts that will reinforce the policy reform goals AID is also seeking to achieve. This can be quite successful, especially where AID-generated LC amounts are relatively small. The fear that "commingling" such LC funds with other funds will reduce accountability or additionality is largely unwarranted.

- Special accounts per se should not be required on the assumption that they will greatly facilitate additionality or accountability. This is especially true since current AID guidance indicates that additionality is not a requirement for local currency use. What is more important is the quality of local currency use, monitoring and management overall; a special account is only one tool that may improve this process.

- AID Missions should make a greater effort to program LC proceeds to help cover costs of implementing SHMs, including assistance to the sector agency through which implementation will occur.

BROADER POLICY DIALOGUE LESSONS AND RECOMMENDATIONS

In examining the process of negotiating Self-Help Measures and the related programming of local currency sales proceeds, we gathered a good deal of data on the policy dialogue process as it is affected by PL 480 negotiations and implementation. Thus, while we were not examining impact of PL 480 programs *per se*, since this had been done extensively in another AID-funded case study series, we have been looking at the impact of these five programs on the policy dialogue process. Our conclusions are not startling, but may be helpful in the Agency's general attempt to improve the quality and results of policy dialogue, both in these countries and elsewhere.

CONTINUITY:

The Pakistan case study, which examines the longest of the food aid programs--34 years--and currently one of the largest--$50 million per year--shows that the policy dialogue, to be successful, should sometimes be low-key, with U.S. officials maintaining a low profile. Over the years, good relations have developed and been maintained among U.S. and Pakistani agricultural technicians. Discussions of agricultural policy and technical issues have been continuous at this technical level, while U.S. funding levels and contributions to the agriculture sector have been very large on a cumulative basis. On the whole, over the life of the program, U.S. advice on agricultural issues has been highly valued. There is evidence that, historically, many of the GOP's policy improvements have been based on, or at least highly correlated with, suggestions made by U.S. AID personnel.

In Zambia, where the U.S. aid presence has been much more recent than that in Pakistan, continuity in U.S. representation has had a similarly beneficial effect in helping the GRZ to undertake very difficult policy reforms with support from the PL 480 program. PL 480 constituted about one-fourth of all USG economic assistance to Zambia until FY 1985, so the comparative magnitude of the program was significant.

The study also finds that parallel continuity in policy-oriented self-help measures was probably essential to the policy dialogue and reform processes. The U.S. assistance program has focused heavily on the development policy theme, particularly on policies affecting agriculture and food. Emphasis has been on producer incentives and production, imports and the balance of trade, subsidy costs, and internal economic stability. Underlying analysis has been good and iterative, so that there is a substantial body of documentation on which to base policy and program recommendations.

In Tunisia, continuity has also been important for successful policy reform encouraged by the PL 480 program. Here, the major mechanism has been the development of a multi-year strategy document. This document, jointly developed by USAID staff and key consultants, has served as a basis for annual agreement negotiations, ensuring considerable continuity of SHMs and reinforcement of policy objectives by U.S. officials at the technical and at the senior policy-making levels. The second multi-year strategy document has recently been prepared, which reinforced the sense of continuity and purpose, as well as the sense of continuing USG interest in program results.

This has been especially important as PL 480 resources available to Tunisia have been diminishing while, at the same time, Tunisia has been encountering significant economic problems. Further, the importance of Tunisia's relations with the U.S. in terms of broader geopolitical considerations has become highlighted just at the time when PL 480 resources have been diminished. In such circumstances, it is very difficult to pursue a policy dialogue with any credibility. Fortunately, the continuity represented by the strategy development process, the periodic return of the key consultant to work with the GOT to evaluate progress and reassess priorities and policy objectives, have enabled the dialogue to continue successfully.

INFLUENCE, LEVERAGE AND CONDITIONALITY:

In Haiti, the policy dialogue aspect of the PL 480 program is most visible from the time the AID Mission there began to design a Title III program. This design, negotiation and approval process took three years, partly because of Washington-based delays, and partly because of the changes in key GOH staff. Staffing continuity on the AID side was particularly important, given the instability of tenure of GOH officials during this time period. Continuity was achieved by keeping management responsibility of the process largely in the hands of one senior officer, complemented by the analytical and technical support of a large number of Haitian private sector consultants, and by creative use of FSN staff resources.

Despite a crumbling internal situation, the GOH performed relatively well on the SHMs in the first year of the Title III program. This relative success was partly achieved by maintaining a consistent awareness of what was happening in the host government which, together with the magnitude of the USG resources being programmed for Haiti, meant that the AID staff were able to exert a considerable amount of influence on GOH decisions prior to the start of Title III. The USAID did not always choose to exert this influence, however. Rather than taking a punitive approach to the concept of "leverage", the USAID instead took the approach of concertedly rewarding good performance on the policy front through increases in funding levels under Title I. A complementary strategy of <u>reducing</u> funding to the GOH on the DA side, by switching DA resources to PVOs, provided the proverbial "stick".

In Mali, AID benefited from the existence of a multi-donor effort to influence the GRM to liberalize cereals marketing policy. This effort had been in train for a number of years before AID began to contribute to it concretely in the form of PL 480 Title II, Section 206 commodities. However, the USG had been represented on the multi-donor group for some time before this relationship was concretized. Membership in this group enabled the U.S. Ambassador to have increased influence in the policy dialogue arena over and above what might otherwise have been possible, given USG-GRM relationships and the level of USG assistance to Mali. Similarly, U.S. participation in the multi-donor group increased the credibility of the latter with the GRM especially because its negotiating strategy was based on unanimity. Presenting this united front to senior officials of the GRM seems to have been a key to the success of the program so far. Additionally, the ability of the group to take into account the political realities faced by the GRM, and to allow delays in meeting the most stringent and politically expensive of the liberalization targets while other targets were met, was probably also a key to keeping the program going.

This kind of flexibility, and the capacity clearly to take into account the realities faced by the host country government in attempting policy reform seems to have been critical to the success of all of the cases reviewed. Influence, rather than leverage or conditionality, is the main characteristic of the policy dialogue as it takes place in the PL 480 context. As has been noted elsewhere, PL 480 resources are approved, agreements signed, and commodities must be loaded within a given fiscal year. Thus, they cannot be "tranched" as can other U.S. assistance resources. As a result, the USG's policy reform efforts have to be accepted before the resources are provided, by the time the commodity level is approved in Washington and then conveyed through negotiation instructions to the field.

INSTITUTIONALIZATION:

Institutionalizing the policy dialogue process is another issue examined in these case studies. Most of the programs reviewed have been in existence for a relatively long time, with the direct USG participation in the Mali program as the exception. Multi-year commitments by the USG to particular programs, as in the case of Pakistan for example, do not preclude the annual SHM reporting and negotiation process. Similarly, annual negotiations take place where no multi-year funding level has been achieved. What seems to count for institutionalization, then, is whether or not there is continuity of understanding and agreement content from one year to the next, whether the same individuals are involved representing both parties over time, and whether the policy aims of the food aid program are understood by both sides. To the extent that the USG has in more recent years substantially increased its emphasis on the use of PL 480 as part of a policy dialogue process, this understanding is not always obvious. In Tunisia and Haiti, preparation of multi-year strategy documents has helped to clarify the policy reform aspect of the Title I and Title III programs respectively.

Key lessons learned about policy dialogue in the PL 480 context are:

- A mixture between informal and formal discussions and negotiations, and reliance on relations of influence rather than reliance on leverage and conditionality, have led to successful policy dialogue in all five cases.

- Where local currencies have been jointly programmed to ease the host government's burden in implementing stringent, or politically difficult self-help measures for policy reform, successful performance has been most likely.

- Continuity in policy reform goals sought through the identification and negotiation of Self-Help Measures included in PL 480 Agreements is a key to successful performance, as are simply-stated SHMs, with easily-measured benchmarks.

- Similarly, sticking to a few key policy provisions or goals, rather than trying to include many and to cover a number of different sectors, seems most likely to yield success.

- Involving host government technicians in the dialogue from the beginning, along with U.S. technicians, has proved important to the negotiation process. Sparing use of senior officials until later points in the process makes their efficacy greater, and helps to maintain the substantive focus of the SHMs.

- Integration of PL 480 SHMs with policy-related components of other AID programs for the country in question should be attempted, since it can greatly assist the dialogue and subsequent self-help performance by the host government.

SPECIFIC POLICY IMPACTS

The scope of work for these evaluative case studies did not include assessing impact of the respective PL 480 programs, either on policy or on agricultural production, population growth, or any other sector or issue to which Self-Help Measures may have related. In part, this was because AID had already funded a series of case studies of the impact of selected Title I programs. Also, as was highlighted by the Zambia team, cause and effect between self-help provisions or other commitments contained in agreements and host government (HG) action are at best very difficult to establish even by those in a position to observe events directly. If evaluations arrive years later, when most of the principal actors are no longer around, determining directions of cause and effect and of intervening variables becomes even more difficult.

Nevertheless, in most of the five cases, an attempt was made to examine the record and attempt to gauge congruence between HG policies and the commitments these same governments made in signing particular PL 480 agreements. In some cases, it was additionally possible to document instances where U.S. aid had been supportive of policy-related implementation by the HG, regardless of the source of impetus for the new policy or other reform.

If we take each country case in turn, we find that there has, in fact, been considerable congruence between the SHMs included in agreements over time, and the policy action taken in the same domains by the host governments in question.

Thus, for Tunisia, over the past seven years or so, there has been an impressive reorganization of the fertilizer subsector, more recent additional reorientation away from state intervention toward private sector and cooperative activities, and attempts at improving the distribution and management of agricultural credit. Major local currency suppport was also given to private farmer service cooperatives. It seems fairly clear, given the lack of similar shifts away from statist intervention by the GOT elsewhere in the agriculture sector over the same period, that there has been success in the sustained policy dialogue represented by the PL 480 negotiation and evaluation process. It should also be noted that the GOT spent far greater amounts of funds on implementing these changes--especially in fertilizer production and distribution--than were ever forthcoming from PL 480.

In Mali, there was a multi-donor effort to help the GRM to liberalize cereals marketing, reduce parastatal costs and involvement, and increase producer incentives through price reform. In addition the donors pressed for commensurate increases in prices to urban consumers, including civil servants, who pay subsidized prices for cereals. GRM action on the first two policy shifts, which were supported by the attribution of LD from all food aid donors, was quite good. On the consumer price subsidy issue, as well as the liberalization of paddy marketing, progress was slower. The multi-donor group, however, took GRM success in making politically less-onerous policy shifts into account by showing tolerance of its delays in making those that held the most political risk. There was some indication, however, that to the extent that the multi-donor food aid group was seen as "taking care of" these policy reforms, the IMF and World Bank could decrease pressure on the GRM toward similar reforms.

Haiti presents a complex case. Under Title I, a fairly broad range of SHMs relating to agriculture was negotiated. These included provision of agricultural credit, training and extension services, and expanded availability of production inputs. By 1979, more specific SHMs were also included, particularly one to implement a program for the eradication of swine fever by June, 1983, with replacement stock in place by 1985.

On the policy front, the 1979 Agreement also included SHMs committing the GOH to investigate the taxing and pricing policies of various agricultural products, especially coffee, to assure that "these policies do not serve as disincentives to production" with a report on options due by 1983. Another SHM provided for reform in tax and customs administration. Partly as a result of AID-provided technical assistance, the tax and customs reforms were well in hand by 1985--somewhat behind schedule. These SHMs were included, in appropriately modified form, in the 1985 Title III Agreement. Since performance conditions debt forgiveness under Title III, and since a long and inclusive negotiation and dialogue process had been instituted between 1982 and 1985, performance on Title III SHMs was likely to be taken more seriously by the GOH than under Title I.

The U.S. Mission comments on the evaluation of the first six months of Title III implementation indicate that "the performance of the GOH in implementing the program has been satisfactory" (Unclassified Port-au-Price cable 1041, February 1986). Improvements had been made in performance on nine of seventeen SHMs that had been flagged in an earlier joint review. With benefit of hindsight, it is clear that the GOH was on its way to collapse at this time. Thus, it is impressive that a number of the policy reform steps called for were, in fact, being taken before that collapse occurred.

The case of Zambia is somewhat complex as well. As has been noted, AID support for SHMs in agreements with the GRZ came through two channels--PL 480 and the CIP programs. The evaluation team notes that on the basis of extensive document review, there is a very high level of congruence between commitments contained in US-GRZ agreements and GRZ performance. The US has applied its resources in support of measures to improve research, extension and planning capability; reduce levels of spending on food subsidies, especially consumer subsidies; improve price incentives for farmers; increase private enterprise involvement in marketing; reduce input subsidies; reduce or eliminate spending on subsidies for parastatals involved in marketing and transport; reduce the domestic budget deficit and narrow the BOP gap.

Disregarding the question of which reforms, if any, can be shown to originate with the PL 480 negotiations, it is clear that the US has been extremely supportive of Zambian efforts to recover from the disastrous economic problems resulting mainly from international events beyond its control. By 1985, the Zambian economic crisis was so critical, despite the USG support to improved policy actions under PL 480, that the World Bank and the IMF took the lead in negotiating an intensified economic reform program. The U.S. provided major bilateral support to these additional initiatives, which involve the potential for considerable political and social unrest.

For Pakistan, the history of the PL 480 process is very long, and as in the other cases, PL 480 was only one of a variety of channels through which the USG could attempt to affect host government policy. Interestingly enough, at the time the case study was carried out--January-February, 1986--it did not seem that there was as much congruence between recent SHMs and recent GOP policy reform as there should be, given the magnitude and longevity of the Title I program (approximately $2.6 billion over 34 years). Then, in April, the cabinet of the new civilian government announced several important policy measures to reduce controls on the vegetable oil and vegetable ghee industry which the USG had long encouraged under PL 480. These measures include:

- removal of price controls on vegetable ghee and edible oil;
- elimination of private sector import restrictions for both palm and vegetable oils;
- shifting to a variable import duty to equate oil import costs with domestic price support commitments;
- existing private ghee production factories are to be permitted to produce to full capacity rather than at 1/2-1/3 capacity as before.

The Pakistan AID Mission comments on this policy shift as follows:

> "These changes are a substantial liberalization of the economy and, we believe, the partial result of three years of policy dialogue in the PL 480 program" (Unclassified Islamabad cable 08133, April, 1986).

However, the cable also indicates with a certain frankness that the timing of the reform announcement was probably carefully calculated to correspond with the upcoming donor consortium meetings in Paris, and that while congratulations to the GOP are in order, there are still a number of difficult agricultural policy reforms to be undertaken.

These five cases do, indeed, indicate that there has been congruence between policy agenda items included as Self-Help Measures in PL 480 agreements and subsequent host government policy reforms. In all of the cases, however, there have been at least several intervening variables, both internal to the country, and external--as is clearest in the cases of the Mali drought and plunging prices for Zambian copper--which have been critical in influencing HG decisions to make hard policy choices. Therefore, any USG claims to success through the policy dialogue as represented by the PL 480 process should be made with care. In some instances the policy reforms called for and supported by the USG may have serious social and economic side-effects. Claiming too much influence on the process may well be counter-productive in terms of overall USG-HG relations.

The five case studies demonstrate that there are often similarities in the content of specific SHMs from one country to another--e.g., producer price incentives, reduction of input and other subsidies, increased private sector involvement in agricultural marketing. These, not surprisingly, correspond to the general policies currently being supported by the USG and specifically, by AID. However, the differences in SHMs from program to program are perhaps as instructive as their similarities. That is, SHMs are, in most instances, carefully tailored to the existing policy environment in the host country in question, and may be seen to fit into an evolving policy reform context supported by other donors and by some elements in the host government itself. They are not merely blueprinted prescriptions for economic reform applied across the board. The extent to which SHMs have been appropriately tailored to the policy context and country realities at hand may be one of the key indicators of a successful PL 480 program.

PL 480 PROGRAM IMPROVEMENTS - SUGGESTIONS FOR AID/W AND THE DCC

The PL 480 program is a USG resource governed by an inter-agency commmittee on which are represented agencies with differing agendas which may and do sometimes conflict. Meanwhile, the individuals who staff the Food Assistance Subcommittee have this as only one of many responsibilities, and cannot realistically pay complete attention to all the nuances of each PL 480 program. Yet, this is the attempt that they make. Since there are competing agendas and purposes represented, approval processes and resulting negotiating instructions are sometimes characterized by considerable delays. Some agencies insist on SHMs which meet their own priorities, but which are seen as irrelevant or even potentially detrimental by the field. Formal and informal guidance from various agencies involved can serve to confuse the negotiation process and weaken the stance of the U.S. country team.

Meanwhile, the Congress, many of whose constituents are interested in the PL 480 legislation, has amended it fairly frequently, adding new requirements, purposes to be served, or criteria for use of funds. Inevitably, this weakens one of the greatest virtues of the program, namely that it can be flexible enough for negotiation to have some real meaning in the individual country agreement context.

Thus, it is not surprising that one of the main findings of these case studies is that some US field staff are confused about what AID's policy regarding local currency proceeds programming really is. There have been a number of communications to the field which are not assembled in one set of guidance materials, and which are somewhat contradictory. Thus, a particular U.S. country team may be trying hard--jointly with host government counterparts--to "follow the rules" regarding self-help performance and LC programming or attribution, and still find that it is being criticized for inadequate or inappropriate performance in these areas by one agency or another in Washington.

As other sources of funds become scarce, it will be more and more tempting for the Congress, the DCC and AID/W to attempt to use PL 480 programs--and related local currency proceeds--to substitute for losses elsewhere. There is, therefore, a real risk that the kinds of successes outlined in this report will be less likely to be replicated because there will be too much pressure on Missions to do too many things under PL 480.

What the studies show, in fact, is that greater flexibility, and less direct intervention and control from Washington, are likely to increase the impact of PL 480 on policy dialogue and subsequent policy reform. This will especially be true if there is more willingness to make multi-year funding commitments on the basis of coherent and well-presented analytic strategy documents coming in from the field. It seems to be the combination of a multi-year, mutually-defined strategy and a multi-year funding commitment from the USG that is most likely to lead to successful policy performance.

Additional flexibility, plus a sort of policy reform multiplier effect, is likely if Washington becomes less reticent about using PL 480 LC to support other-donor programs, or to use it as the basis for generating multi-donor programs in which the USG has a key role from the outset. Mali's Title II, Section 206 program provides an example of successful "commingling" of LC proceeds from sales of PL 480 commodities with LC proceeds from other-donor food aid programs.

Under this multi-donor program, no LC proceeds can be expended--whatever their source--without the prior unanimous accord of the donor committee. So far, there has been no sense of loss of "leverage" or of "accountability" for LC proceeds from PL 480. Rather, the "strength in numbers" approach of this program seems to be one of its most attractive features. Given levels of USG commodities provided, it is very doubtful if the PL 480 program alone could have achieved a significant fraction of the policy reform that is being achieved by the multi-donor group together.

The main recommendations based on case study findings for AID/W and the DCC/FA Subcommittee are:

- o That the Administration, in consultation with the Congress, establish a working group with a mandate to review the total PL 480 experience, and undertake the activities recommended below:

- o That AID alone, or in consultation with other members of the DCC/FA Subcommittee, prepare a comprehensive guidebook for the use of U.S. officials responsible for design and implementation of PL 480 programs. Such guidance should have sections appropriate for those involved in all stages of the process, as well as for those--such as senior Embassy officials--who only become involved in higher-level negotiations, and for those who are managing other programs that have policy implications relating to those incorporated in PL 480 negotiations and agreements;

- o A separate manual or handbook should be prepared for host government officials involved in the PL 480 process, again both for those at the technical and managerial level, who need detailed guidance, and for higher-level officials who need less detail;

- o That preparation of this guidance coincide with an analysis of total operational requirements implied by the PL 480 programs and make specific resulting recommendations to the DCC and the Congress on ways to simplify and improve the functioning of U.S. food aid as a developmental resource;

- That recipient countries and their local AID missions be encouraged to prepare analytic, multi-year PL 480 strategy documents for submission to Washington, on the basis of which DCC/FA can make multi-year funding commitments where appropriate. Then, only a simple annual approval process would be required, and the Mission could begin negotiations without waiting for formal negotiating instructions if performance on the prior year's agreement had been satisfactory;

- That AID examine the advantage of drawing in other donors to assist in achieving PL 480 self-help objectives, and address effectively OMB's objections to the "commingling" of funds;

- That the DCC/FA consider delegating more authority to the field, based on prior approval of strategy papers, so as to avoid delays in formulating and transmitting negotiating instructions since such delays reduce the credibility of the U.S. country team during the pre-negotiation process, a key element in successful policy dialogue.

ANNEX A

SCOPE OF WORK

SECTION C - DESCRIPTION/SPECS/WORK STATEMENT

C.1. Description

The purpose of this contract is to assist FVA/PPE in acquiring a better understanding of successful PL 480 programming processes. In doing so, the contractor shall conduct case studies in three of the following five countries: Pakistan, Zambia, Haiti, Dominican Republic or Costa Rica.

Case Study Approach and Duration

Each case study shall begin with the collection and analysis of background information on the country program in Washington, D.C. This will include documentation review and interviews with key AID, USDA, State Department and OMB officials involved in the PL 480 program in question. This phase will take approximately 5 days per team member.

After this pre-field analysis is completed, the study team will proceed to the country to carry out field investigations, reviewing additional documentation, interviewing key U.S. Mission and Host-Government officials and visiting appropriate field sites. The field work will be carried out in approximately 15 working days per team member.

Upon return from the field, the team will review its findings and prepare a draft country case report. When all three case studies have been carried out, and the three final case reports are prepared, the Contractor's core technical staff, collaborating with the appropriate AID officer team members will prepare a synthesis report, drawing out lessons learned from the three cases plus the two Phase I pilot cases. The synthesis will provide recommendations for making decisions about what kinds of self-help provisions are appropriate given a variety of country environment, what kinds of mechanisms are appropriate for the programming and monitoring of local currency sales proceeds, and appropriate methodologies for evaluating program success. A strategy for dissemination of conclusions will also be included. Preparation of the draft synthesis report will take approximately 15 working days.

C.2. Work Statement

To accomplish the objectives of this contract, the contractor shall perform the following tasks:

Case Studies

1. Review and evaluation of data analysis underlying the PL 480 program. The study shall identify and evaluate the data and analyses which provide the basis for selection of priorities and proposed PL 480 strategies, negotiation instructions and the local currency use and related self-help conditions contained in annual PL 480 agreements. Particular emphasis will be placed on the approaches used and assembly, processing and analyses of quantitative and qualitative information. The study shall include methods used by Missions to assemble and manage the process, the roles of various entities and adequacy of data and analytical techniques to support alternative program directions. The study shall be particularly sensitive to innovative methods used in mobilizing and deploying Mission-provided analyses, collaboration with host country and other donor institutions and resource people to methods used to overcome data limitations frequently encountered in developing countries. The study shall identify areas where data and analysis might be strengthened and, to the extent resources permit, it will assist in strengthening data and analysis and improving methodology.

   Review and evaluation of underlying data and analysis shall include, as appropriate, examination of relative private and public roles in agricultural production and marketing, pricing at both consumer and producer levels and adequacy of the pricing system and price incentives to achieve higher gross output rates for key agricultural commodities.

2. Review of Negotiation and Monitoring Process. The study shall identify roles played and processes by which:

   a) U.S. positions were developed on different issues;

   b) the discussions were carried out with host government officials at different levels, and

   c) specific PL 48- self-help terms were negotiated.

It shall examine also, though in less detail, roles and proficiencies on the host government side. The study shall review provisions for self-help reporting, self-help reports submitted and other methods used by Missions in monitoring self-help performance. It shall review action that were taken when self-help conditions were not met. Wherever possible and within the constraints of data availability, impact information will be assessed.

3) <u>Review of Local Currency Applications</u>. The study shall identify and evaluate:

   a) the specific terms and conditions for application of local currency proceeds generated by sale of PL 480-financed commodities.

   b) procedures actually employed in managing local currency, and

   c) timeliness, adequacy and, to the extent possible, results of specific local currency applications and reporting by host government. It will also review assignments of responsibility and roles played in local currency programming, disbursement of funds, audit, reporting and local currency monitoring within both U.S. Missions and host countries.

<u>Issues to be Addressed, With Illustrative Questions</u>

The issues and associated questions which follow are derived from the Contractor's experience in carrying out the two pilot case studies. They are grouped according to broad issues about program definition, identification of self-help measures, negotiation techniques, participants and outcomes, implementation issues--including local currency programming and monitoring-- and evaluation. This list is meant to be illustrative, and will be adjusted in advance of each country visit in accordance with the information gathered and analyzed before departure about the specific case to be studied.

<u>Identification of self-help provisions</u>:

1. On the basis of what kind of analysis within the AID Mission, or the broader U.S. country team, were key self-help provisions identified? What analysis from the host government?

2. If this analysis was cursory, and based on generalized feelings about what the host government should be doing

about development priorities, was there consensus within the country team that these generalizations were correct and relevant?

If not, what kinds of steps was the AID Mission able to take to see that its view of the situation prevailed? Was it successful in this?

3. Within the U.S. country team, what role did personalities play in the identification of proposed self-help provisions? E.g., had the Ambassador already identified some agenda items that he/she felt should receive leverage through the PL 480 program process? Was the relationship between the Ambassador and the AID Director such that there was a clear division of labor between them that was maintained when it came to PL 480 matters?

4. For the purpose of developing a country-team stance on self-help provisions to be proposed to the host country government, who asked to do the technical analysis? Within the AID mission specifically, did this analysis come from the agriculture office, from the progam office, or from a combination of both? If the latter, and where there was disagreement, which analysis prevailed, and who made the decision?

5. To what extent was the identification of proposed self-help provisions part of a broader attempt at addressing development policy within the host country government? That is, was there an on-going policy dialogue of any kind of which this became a part, or from which it was drawn, or were the PL 480 negotiations _ad hoc_, or perhaps the only venue for such a dialogue?

6. On the host government side, which entities were approached, and at what level during the identification process? Was the process a joint one from the beginning, or did the U.S. team develop its own proposals first "in-house" and then seek an HG interlocutor?

7. Who was allowed to speak for the HG about possible self-help provisions at the technical level, at the policy level, overall? How many HG entities were involved in the initial stages of discussions?

8. How well did these HG entities understand the concept of self-help provisions, and how seriously did they take them once they were understood? Also, how well

did they understand the internal structure of the U.S. country team and the power relationships within it? Did they, for example, try to restrict discussions to the AID technicians they were used to or, alternatively, did they seek to involved others in the hope that broader political concerns could be brought to bear in order to reduce the onus on them to take the process seriously?

9. What had been the history of requirements for self-help measures in prior PL 480 negotiations, and how did this affect subsequent negotiations?

10. Did the HG officials involved tend to stick to the analysis underlying or set forth in the contemporary five-year plan in addressing self-help issues?

11. Was there reference from either of the parties to the actions and expectations of other donors in identifying appropriate self-help provisions?

Negotiations of self-help provisions:

1. At what point in the negotiations did local currency sales proceeds and their attribution become an item of discussion, and did this pose problems in terms of generating and agreement on self-help provisions?

2. During negotiations, were new actors from each side brought into the process depending only how the negotiations were faring? Were appeals made to higher authority on one side, or on both sides? Did this depend on the funding level of the PL 480 program being negotiated, and on its visibility, or rather did it depend on general power and authority relations on both sides?

3. Did the members of the U.S. country team who were involved have a good understanding of the decision-making process on the HG side, and of the HG budgeting process as this related to the PL 480 agreement under the discussion? Were there any surprises in this area? Did there appear to be good communication about the basic premises underlying discussions of policy issues and related financing questions?

4. What appeared to be the role of other donors, and/or TA advisors to the HG entities involved, and their impact on the negotiation process?

5. How much did AID/W guidance, and/or State Department concerns, enter in both in terms of the content and the style of the negotiations? Did this have a particular kind of impact? E.g., if AID/W was saying that self-help provisions and verifiable bench-marks were important, was there a different, more political message coming from the Embassy? Alternatively, was AID trying to get State to focus on the implications of the PL 480 program for broader political concerns?

6. How important a role did the HG Ministry of Plan and/or Ministry of Finance play in the negotiation process, vis-a-vis that of the Ministry of Agriculture or other line ministries? What about the central bank?

7. How much did the U.S. wind up giving in regarding verifiable self-help provisions in order to get an agreement signed? How much did the HG representatives wind up giving in?

8. To what extent, when agreement was reached, was there anything substantive and verifiable left in the self-help provisions? If there was little left, was it the joint intention to try to again next year or merely to give a sign of relief, and go about business as usual?

9. In the view of those who were involved, what would have improved the quality and the outcome of the negotiation process?

10. What would have improved it in the view of the evaluation team?

Implementation, Monitoring and Evaluation

1. Were there serious delays in signing the Agreement? Were there serious delays in the arrival and/or sale of the commodities? If so, why? If so, what were the implications of these delays for implementation in general?

2. Given arrangements made in the negotiation process for monitoring and evaluation during implementation, was the appropriate level of interest and effort maintained during the initial stages of implementation?

3. If problems arose in implementation, was there a mechanism in place for their timely discussion and resolution, or did this have to await the arrival of scheduled evaluations/reports?

4. Did implementation and monitoring of the PL 480 program assist the AID Mission in carrying out its other activities in the same sector or sectors, or was there little feed-through from one or the other? Were the same people involved in monitoring both aspects of the AID program or were they operated separately the majority of the time?

5. Was there any kind of monitoring other than that connected with the programming of local currency proceeds? If so, what kind; if not why?

6. Was monitoring and evaluation seen as a concern primarily or exclusively of the U.S., or was it taken seriously by the HG as well?

7. Were outsiders brought in to facilitate monitoring and evalaution, and if so, was this helpful in leading to success in problem resolution and redesign where necessary? Was it harmful to continuity or helpful to provide an institutional memory when AID and HG staff changed?

8. Were the self-help provisions' bench-marks sufficiently verifiable such that monitoring and evaluation were facilitated?

9. What happened when monitoring or evaluation showed that the bench-marks or targets were not being met in a timely manner? Were they revised, were they ignored, on what basis and how?

10. Were these bench-marks conceived of as success measures, or were three other mutually-agreed measures of success? How were these established, and how much consensus was there about them? Were they technically defined, or were they framed in terms of broader policy considerations?

Redesign

1. Was the provision made for a formal redesign process, with which the HG was in agreement? What were the criteria established on the basis of which redesign would be called for? Who had the right or authority to call for it?

2. Who was involved in carrying out the redesign? AID Mission staff? Consultants? Host government implementing agency? Others?

3. What latitude did the Mission have in deciding whether or not to prepare a completely new program paper rather than an amendment? What was the nature of the negotiation process in each case?

4. Where there was redesign, were relationships with the HG fostered or harmed? On what does the answer depend? How much was local currency programming an issue here?

Local Currency Proceeds

Programming:

1. Did the agreement specify the applications of the LC, and how LC allocations would be treated in both the host country budget and the accounting and auditing systems? Did the agreement specify how and when LC would be disbursed?

2. Are USAID personnel included in programming activities at the ministry level? Co-programming allows the USAID to follow and influence projects more often and better than during the annual reporting period.

3. Has the HG established tough, but attainable self-help targets?

4. Are there specific, sufficiently detailed plans for projects/programs on which LC will be spent, prepared before agreements are signed?

5. Do both the host country government and the USAID have a "planning action schedule" specifying what each will do when? Is there a coordinating group (government-USAID) with a coordinator named by the implementing ministry - who monitors, convenes the parties, reviews, resolves problems, and who assemblies reports of various action agencies and integrates them into interim and final reports?

6. Do host country implementing agencies have sufficient manpower/expertise to do detailed project planning, project economic/financial analysis, and to establish and carry out implementation plans? Can they establish a management information and control system to provide planning, control and evaluation? Should AID devote a part of LC to strengthen implementing agency expertise in these areas?

7. What kind and amount of assistance and guidelines do "staff" (as opposed to "line") ministries/agencies (e.g., Ministry of Planning, Ministry of Finance, Ministry of Foreign Affairs) offer implementing ministries/agencies in the preparation of budget proposals so that proposed uses of funds (including PL 480 Title I) fit into the overall economic development plan of the country and have the best chances of approval?

8. The large and fragmented conglomeration of government agencies and parastatals reporting to different ministries involved in agricultural development has substantially complicated the processs of reaching agreement on program objectives and implementation assignments. What kind of coordinating mechanisms have USAID and the HG established?

9. Do the USAID and the host country government come to an early understanding as to priorities in the use of LC which directly support specific self-help measures of the host country, and are there sufficiently well-analyzed and prepared high-potential projects/programs ready to be funded, i.e., is the "agreement programming" rather than "ex-post programming"?

10. Is there written understanding between the two parties as to when LC is released to implementing agencies, what documentation is required, and what budgeting, accounting and auditing procedures are necessary to satisfy AID?. Is there a mechanism whereby the two parties can hold LC "in escrow" until decisions regarding specific allocations can be made? For example, in Tunisia, the Minstry of Planning stated the Ministry of Agriculture had not sufficiently analyzed the question of establishing service cooperatives for small farmers (the subject on the 1984 supplementary PL 480 Title I agreement) nor had it identified and developed adequate implementation plans. Thus, the LC generated has not yet "reached" the Ministry of Agriculture. It is in escrow.

11. Is the host country resistant to specific programming of LC? Is there host country resistence to the concept of additionality? Does the host country understand the concept?

12. Does the PL 480 program have quantified measurable targets which are additional? Does it ensure that the poor people in the recipient country will be the major beneficiaries?

13. Does the message of additionality, specific programming of LC and monitoring get across to all concerned ministries? Seemingly, it did not in Tunisia because MOA did not convey the message to MOP.

In the case of Cape Verde's PL 480 Title II, Section 206 program, the lack of initial understanding caused some confusion, and seemingly some resentment in that the Cape Verdeians felt they were being "dictated to."

Management

1. Is the host country accounting and auditing system adequate for AID purposes?

2. Does the Mission do regular on-site inspections of a representative sample of self-help activities financed from Title I LC sales proceeds?

3. Is there a procedure established to record the progress made toward project goals and uses made of the local currency? Than a self-help project is tied-in with one of USAID's regular projects, does it receive adequate overview as a result of being attached to the regular project?

4. How soon after receipt of U.S. commodities do implementing agencies receive authorization to spend?

5. Does the Mision receive timely, frequent reports from each implementing host country agency on how monies have been used? Does the Mission receive and end-use accounting for each PL 480 activity?

6. To what degree does the USAID manage PL 480-generated LC? Is management limited to monitoring the budgeting and host country application of LC, or does it extend so far as offering technical assistance, training and/or other forms of support to LC financed activities so as to enhance their chances of success?

7. What provision has been made by the USAID to ensure continuity in dealing with the host country government, in programming and in managing the PL 480 program? This question is asked because USAIDs experience turnover in personnel, often rapid and frequent.

8. What is the accounting transactions procedure by which LC is made available to the implementing ministry/agency? Is it available almost immediately to the Ministry of Agriculture as in Tunisia, or does availability of LC depend on the ability of, and time for, the commodity-selling agency to see the products and get paid for its sales - as in Cape Verde?

9. Has the Mission examined the pros and cons of a special account or special mechanism which gives the Mission a greater degree of control and monitoring, and makes the host country strictly accountable to the Mission for the PL 480 funds? Did the Mission do this priority to the institution of a PL 480 program; is it considering asking/requiring the host country to establish a special account for an on-going PL 480 program?

"Political Economy"

1. How closely attuned is the AID Mission to the "political economy" of the host country's economic development strategy as well as its financial/budgetary decision-making process? Who makes the decisions, how do the decisions come about, what is the process, calendar and sequence of budget preparation, review change and approval (disapproval)? (Often a country has its official "five year plan" as well as an unofficial, unwritten plan. The unwritten plan usually is the operative one). What are the priorities as to projects/programs likely to be funded, e.g., Tunisia uses and A, B, C method, i.e.?

   A - 1st Priority - Those projects/activites already underway are reviewed individually for future funding.

   B - 2nd Priority - Those projects which are new, have been approved by the Ministry of Planning, but which have not yet been started. If sufficient funds are available, they will be undertaken.

   C - 3rd Priority - Those projects which are new, have been through the planning and approval process at the Ministry of Agriculture, but which have not yet been approved by the Ministry of Planning.

2. What ministry/department acts as allocator of resources for an implementing ministry's investment budget, and its operating budget? In Tunisia, for example, the Ministry of Finance only has say-so over another ministry's operations budget and acts largely as a

controller and auditor. The Ministry of Plan controls the allocations to implementing ministry's investment budget. By contrast, in Morocco, the Ministry of Finance has a great deal more authority, with the Ministry of Plan playing a largely analytical and "staff" role.

3. What are the roles of the Minister of Finance, Plan, Industry or Economy, Interior Foreign Affairs? What are the roles of key parastatals as operating entities? Do they have a policy voice?

4. Does the resource-allocating ministry provide guidance for the implementing ministry regarding budget preparation and changes during the budget process? What degree of negotiatior is possible at various points in the budget process, between whom, at what levels, and does the implementing ministry have resources to higher authorities should it feel very strongly that an initially disapproved project/program should be carried out?

5. Are donor funds (including U.S.) fungible, i.e., are they, for example, commingled in one development account such that they lose their identity and such that, effectively, U.S. funds may be used to support other donor(s) programs(s) with "repayment" to the U.S. funded project(s) to come at a future date?

   In the Mali Title II, Section 206 example, funds are accounted for separately, but all donors which are parties to the PRMC must reach consensus about how "counterpart" funds are spent.

   In the case of Cape Verde, almost all development activity is completely donor-funded, and because of different funding modalities among donors, there are lags in the flow of funds to projects - some of which make frequent, regular demands on the overall funds flow, i.e., projects with heavy labor components.

   In Morocco, at least up to the 1983 PL 480 Title I Agreement, funds generated from sales of PL 480 grain could be and were attributed to counterpart funding of other donor activities. The 1983 agreement saw concerted effort on the part of the USAID to program proceeds toward HG counterpart contributions to USAID-funded projects.

Other

1. Is the objective of a PL 480 program largely political, market development, or agricultural development? If the objective is principally political, then USAID would be unlikely to insist on strict programming, monitoring and accountability.

2. Is the financial size of the host country self-help measures relative to the LC generation from sale of PL 480 commodities so much larger than the Mission feels constrained to insist on planning, programming an monitoring the LC proceeds?

ANNEX B

COUNTRY CASE STUDY EXECUTIVE SUMMARIES

TUNISIA AND MALI

EXECUTIVE SUMMARY

This report presents findings of two brief case studies of the use of PL 480 resources as a development tool--the Tunisia Title I program, and the Mali Title II, Section 206 program. The studies stress identification, negotiation and implementation of self-help provisions and programming and monitoring of local currency sales proceeds. Analysis and lessons learned from each case are presented separately, followed by the primary comparative conclusions or lessons learned. A proposal for further case studies is made. Additional information on the respective country situations is presented in Annexes.

The main comparative lessons learned are as follows:

Focus. In both cases, objectives or self-help provisions were initially sharply focused, and later amplified or varied to include related issues and variables.

Multiyear Approach. Both programs were based on a multiyear approach. In Tunisia, a multiyear strategy was prepared and used as the basis for subsequent agreements and evaluations, although the USG did not approve a multiyear commitment. In Mali, a multiyear commitment was formally made, consonant with a similar multiyear commitment made by a multi-donor group.

Terms of Assistance. The terms of assistance varied considerably between the two programs. However, in both cases, the terms were clear, and did not differ significantly from one year to the next. Further, they depended on the results of annual evaluations which reinforced host government performance on the self-help provisions.

Other Donors. In the Tunisia example, the USG was the only donor to focus on a fertilizer-fueled development strategy. Other donor support has only recently been generated for this approach. In Mali, the USG became the last member of a multi-donor group supporting a cereals market liberalization policy, and benefited significantly from the efforts made by the other donors in advance of its own participation through the Section 206 Project.

Private Enterprise. In both cases, the PL 480 program supported an increased role for private enterprise. This was done, however, in the context of addressing other policy issues. Private enterprise was thus stressed where there was seen to be clear economic benefit to be derived from additional private sector activity.

Coordination with other USAID Programs. In Tunisia, PL 480 and DA and ESF project support have been closely coordinated since the beginning of the PL 480 multiyear strategy. In Mali, some of

the effects of the cereals market restructuring project which is supported through PL 480 are likely to run counter to the objectives of some projects being funded with DA resources. As time goes by, this lack of complementarity in the Mali case may diminish as old DA projects wind down.

Use of Local Currency. In Mali, local currency proceeds of all members of the donor group are primarily used to meet deficits of the state cereals marketing parastatal to encourage the GRM to raise producer prices and raise consumer prices. In Tunisia, they are used to support a general self-help program in agriculture, with specific allocations only starting in the third year of the multiyear strategy period. In context, both approaches seem to be effective.

Problem Analysis and Program Design. In both cases, good technical analysis has preceeded commitment of funds, although the source of the technical expertise has differed. The sense that there were mutually-agreed and sound technical underpinnings to the programs eased negotiations in both instances, although other, more broadly "political" concerns also played a role.

Timing of USG Commitment. In Tunisia, despite the multiyear strategy development, the USG was willing only to make commitments year by year. In Mali, a multiyear commitment up to a specific level of commodities was made at the outset, once the USG decided to participate in the restructuring project. In Tunisia, a multiyear commitment from Washington would probably have been helpful. In Mali, USG willingness to adhere to the multiyear approach of the other donors seems to increase leverage, not decrease it.

Understanding Host Government Constraints. In both instances, negotiations and monitoring have taken into consideration real HG constraints, both economics and political. This flexibility in approach seems to have increased positive policy impact rather than the reverse. It has also allowed for mid-course correction where necessary, based on a sort of early-warning system regarding targets and bench marks. This, in turn, improves the chances of negotiating policy changes over time, and increases USG credibility when a particular policy change is at issue which it will be hard for the HG to make.

U.S. Representatives and Host Country Receptivity. Good personal and professional relationships have been crucial in both countries for ease and effectiveness of program negotiations. Continuity has also been very important for success. In Tunisia, continuity was provided by the iterative use of an outside consultant. In Mali, the same effect was provided by the long-term involvement of several key donor representatives including one particularly committed U.S. Ambassador.

The PL 480 Resource as Leverage. In both instances, considerable positive policy change has been encouraged by skillful use of the PL 480 resource. In neither case has a heavy-handed use been made of the terms "policy dialogue" and "self-help provisions", both of which are often taken as offensive by host government officials. In the Tunisia example, other donors are now coming around to support the policy changes first advocated and supported by the USG in the PL 480 program context. In the Mali example, the USG has come around to providing concrete support for policy changes first sponsored by other donors. These examples both provide support for the assumption that skillfully managed non-project assistance can yield positive policy results over a relatively short period of time where projectized assistance may not be able to achieve the same breadth of impact.

HAITI

EXECUTIVE SUMMARY

A. General

This case study of the Haiti Food for Development Program is part of a series designed to assist AID and host countries to improve the programming of PL 480 resources, provide a basis for replication of successful programs, and through lessons learned, improve programming and evaluation of other types of non-project assistance. The Haiti program is exceptionally interesting in that the Title I program is ten years old, while a new Title III program was just beginning when the case study was carried out. This summary provides brief background information, and lessons learned concerning the identification and negotiation of Self-Help Measures and the programming of local currency sales proceeds in support of the Development Assistance-funded AID program.

B. Country Background

Development assistance to the GOH was resumed by AID in 1973, when Jean-Claude Duvalier took over the presidency from his father, Francois Duvalier. At that point, the economic, social and governmental situation was bleak. All sectors of the economy were in disarray. AID assistance began to focus on agriculture, roads, health, and regional development of the poorest regions.

When the program started up in 1973, the AID Mission had only two staff, and a Title I program seemed a useful means for helping to solve the problems of under-development in Haiti given that kind of staffing limitation. As the program developed, staffing levels increased, and the project portfolio became more varied. In the early 1980s, AID shifted DA-supported projects primarily away from the GOH to private voluntary organizations in the hope that these PVOs would be more clearly able to reach beneficiaries efficiently and also as a way of serving notice to the GOH that its approach to development issues and implementation was problematic for the USG, despite the importance of relations between the two countries. By this point, even after many years of bilateral assistance, Haiti was one of the least developed countries in the Western Hemisphere. It should be noted that this case study was carried out toward the end of the Duvalier regime.

C. Program Development

A Title I program was designed early to help to meet the severe malnutrition problems of Haiti, as well as to support improvements in agricultural research, extension and production. Over ten years, local currency sales proceeds from Title I came to be critical to the rest of the AID program in that they provide the counterpart contribution from the GOH in support of the DA-funded project portfolio. In 1978, the AID Mission began to design a Title III program, whose main emphasis was on administrative reform. Title III had just been added to the legislation, and criteria for approval were not well developed. Negotiations of the policy content of the proposed Title III program for Haiti were not broad based, and hindsight indicates that no one in the GOH felt that there was enough benefit to be got from such a program to warrant the stress that would have been caused by making real efforts in the area of administrative reform.

In 1981, the AID Administrator sent a high-level team to Haiti to review the entire AID assistance program, including PL 480. Subsequently, the Mission received an influx of new senior staff, and emphasis was placed on strengthening management of the Title I program. It was believed that improving Title I performance would set the stage for ultimate approval of a Title III program. Design of the second Title III program proposal began in 1982, with the PID finalized in 1983, and the PP in 1984. Negotiations during this preparatory period were conducted informally with a broad range of GOH representatives, as well as with key members of the private sector involved in agricultural production and export. Part of the design and the related informal negotiation process was the creation of a management structure that would be appropriately elaborate to make sure that the GOH could substantiate claims for debt-forgiveness under the Title III program, one of that Title's most attractive features.

D. Self-Help Measures

Under the initial Title I agreements, SHMs were supposed to include specific emphasis on contributing directly to development progress in poor rural areas and on enabling the poor to participate actively in increasing agricultural production through small farm agriculture. Specific SHMs then addressed increasing food production for local consumption; increased sugar and coffee production for export; revitilization of the national irrigation system, improvement of the rural marketing system, and increasing public sector expenditures for rural services.

After 1982, when the Mission had decided to try to strengthen performance under Title I, there was a shift toward a "targets of opportunity" approach to policy reform incorporated in SHMs. As the program documentation for Title III indicated, some policy reforms that would be included as SHMs in the ultimate Title III agreement of 1985 had already been started by the GOH as a sort of indication of good faith under Title I. Under Title III, SHMs emphasized a related set of policy measures that were supposed to improve agricultural production, especially of tree crops, which would in turn have a beneficial effect on the serious erosion of Haiti's hillsides, and on employment creation and under-nutrition. Related policy measures had to do with road maintenance and the taxes on gasoline and diesel fuel. Particular policy provisions included a staged reduction in the coffee tax, a variety of agricultural price reforms, user management of irrigation systems, and increased agricultural credit availability.

E. Quality of Underlying Analyses

USAID/Haiti, through its own efforts and those of Haitian contract technicians, conducted a wide range of analytic studies to generate findings that could inform the choice of policy changes to be included in the Title III program. Overall, the quality was excellent. Papers were shared with counterpart GOH technicians in the appropriate ministries, and in some instances, comments or whole papers were received in response. This process, and the use of Haitian consultants, helped to ensure that the USAID was aware of at least some of the key technical inputs to the GOH decision-making process, and could informally have additional influence over, and warning of, decisions made. This greatly assisted the Mission in the complex task of conducting informal and formal negotiations for the policy reform agenda that was to be embodied in the self-help provisions of the Title III agreement.

Some lessons learned from the examination of the Haiti Title III SHM identification and negotiation processes are:

- <u>Maintaining an understanding of the background to the host government's decision-making process with regard to policy reform is of great importance in designing and negotiating a PL 480 program</u>.

  The quality of Foreign Service National employees, as well as of the U.S. direct-hire staff in USAID/Haiti, has led to a good understanding by the USAID of the structure and content of the GOH's approach to policy decision-making. Given the rapid changes in staffing and approach typical of the GOH, keeping this understanding current is of extreme importance in designing and implementing a Food for Development program that has important policy implications. In the Haiti case, this was also facilitated by the use of Haitian technicians who, though working in the U.S., still maintained key contacts in Haitian society, and were able to some extent to act as informal go-betweens on behalf of the Mission and the GOH.

o <u>AID's recent increase in emphasis on self-help performance has meant that there may be a greater willingness on the part of the host government to engage in a policy dialogue leading to incremental policy reform.</u>

Combined with the magnitude of the USG's economic assistance contribution to the GOH development budget each year, the Mission's seriousness about self-help performance has meant that the U.S. country team is in a position to exert a considerable amount of influence on GOH decisions. Whether or not it has chosen to do so, however, is another matter. Rather than a traditional leverage approach, recently USAID/Haiti has taken the approach of rewarding the GOH for positive performance by increased levels of funding, at least under the Title I program. PL 480 programs are not conditional in the usual sense, since the commodities are delivered no matter what the importing country government does about its Self-Help Measures during a given agreement year. Thus, it is more effective, as is indicated by the Haiti case, to attempt to exert influence rather than to use ephemeral leverage or non-existent conditionality.

o <u>While referring to Washington may be useful as a delaying tactic in some negotiating contexts--and while delays may allow the situation to change such that the host government is more tractable on certain policy issues--approval delays in Washington can also undercut the credibility of the U.S. country team during program negotiations.</u>

The process of exerting a positive influence on GOH policy reform through the three years of negotiation the Title III program was in some instances put seriously at risk by the long delays between the various steps of the Washington approval process. It is very hard for the field to maintain the momentum of a dialogue about complex and sensitive policy issues when it does not have the authority to conduct negotiations and make changes on the spot. An experiment with limited delegation to the field might prove useful and workable.

F. Local Currency Programming: Lessons Learned

Haiti is a polar case, where the majority of local currency sales proceeds are programmed as GOH counterpart funds for the DA-supported AID project portfolio. This means that the linkage between the Food for Development program and the rest of the U.S. assistance program is very close. Despite improvements in the programming system, and the fact that the GOH has allowed the Mission to co-program funds under Title I, there have been a number of bottlenecks in the system, and disbursements have been delayed, while reporting has not always been as informative as possible. The fact that the GOH knows how dependent the Mission is on the LC proceeds for the implementation of the DA program means that there is a reduction in the amount of perceived leverage and influence the U.S. has in terms of the requirement that the GOH meet the Self-Help Measures and policy provisions agreed to each year. In fact, under the new Title III, there may be sufficient incentive to do so given the debt forgiveness feature. Under Title I in recent years, good performance was encouraged as an incentive for Title III approval, but even so, there have been serious problems with LC proceeds under a number of on-going projects. Some specific lessons from the Haiti case follow:

- <u>While management of LC proceeds is very important, Missions should be very cautious about developing costly and personnel-intensive management systems for PL 480 programs</u>.

  In Haiti, the Title I management system has evolved over the last ten years. Recently, in advance of Title III, some significant streamlining changes have been made. The desire to ensure that Title III performance will be good led to the design of a complex and expensive management process to be put in place in the GOH. An equally complex and potentially staff-intensive process was designed for the AID Mission, so that co-programming and pre-implementation approvals, project monitoring and evaluation will all be done jointly and on schedule. Both of these systems create a significant management burden to the Mission and to the GOH respectively. Also, there is some question whether starting a completely new structure in the GOH to manage a three-year program is institutionally wise or not. In Haiti, this is especially questionable since an existing unit is already receiving U.S. technical assistance in management, but was not given the Title III management responsibility.

- <u>Assisting a host government to reform itself, rather than trying to force reforms where AID does not have sufficient leverage to do so, is a more successful choice, and one which is more likely to lead to institutionalization of the specific reforms and the reform process.</u>

After ten years, some features of improved financial and project management and policy decision-making instituted as part of the Title I program have been institutionalized within the GOH. However, there are still a number of glitches to be removed from the system under Title III. The creation, at AID's suggestion, of a new management entity for the latter is a sign that institutionalization has not really taken place on the mangement side. As for the policy dialogue and reform process, GOH performance and seriousness seems to fluctuate with the many changes in personalities and power within the GOH. On the more positive side, the USAID's decision to try to help set the stage for the GOH to reform itself, rather than to attempt to force reforms where it did not have sufficient leverage to do so, seems to have been a wise one. What will be most telling will be the policy situation--and the GOH's ability to read the results of Title III policy reforms--that obtains at the end of the program's three years.

ZAMBIA

EXECUTIVE SUMMARY

A. General

This report is the fourth in a series of five case studies aimed at identifying how PL 480 programs can be better designed and managed to increase their developmental effectiveness. Zambia's Title I Program was chosen because it had a reasonably long period of continuous operation, called for sufficiently specific self-help commitments to permit an appraisal of effectiveness, and appeared to exemplify the type of overall program integration the Agency is seeking to attain. The evaluation examines the processes by which Self-Help Measures (SHMs) and local currency uses are identified, negotiated, implemented, and monitored; assesses the congruence of SHMs and government actions; examines the adequacy of analyses supporting the SHMs; and identifies lessons learned.

B. Country Background

Zambia is a country of 6.6 million with a growth rate of 3.2 percent per annum. Over 45 percent of the population is urbanized. Per capita income was estimated at about $400-$450 in 1985. However, it would be about $200 per capita at the exchange rate prevailing after October 3, 1985.

Zambia's economy is characterized by:

- o Heavy dependence on copper, an export subject to wide price swings on the international market;
- o Dualism between an urban-oriented modern sector and the rural agricultural sector; and
- o Dualism within the agricultural sector between a small number of expatriate commercial farmers using modern, capital-intensive techniques and the vast number of Zambian farmers using traditional, subsistence technology.

The fundamental development problem in Zambia is to diversify the economy by reducing dependence on the mining sector and increasing emphasis on the high potential yet low-performance agricultural sector. Toward this end, the Government of the Republic of Zambia (GRZ) recently undertook several bold economic reforms and has agreed to implement still more over the next two years. Western donors, particularly the World Bank and AID, view Zambia's market liberalization program as a major test case for the kind of policies they believe are necessary throughout sub-saharan Africa. They are placing high stakes on chances that Zambia's program will succeed.

C. Program Development

From FY 1977 to FY 1986, the U.S. Government provided Zambia with 448,300 metric tons of PL 480 Title I wheat, rice, and vegetable oil valued at $90 million. This assistance comprised 23 percent of total U.S. economic assistance to Zambia over this period. Other assistance included economic support funds consisting of commodity import programs, 51 percent; Project aid, 14%; AEPRP Funds, 6%; and Title II emergency food aid, 6%.

The development of the Zambia PL 480 Title I program is conveniently viewed in terms of three time periods: FY 1977-1979, when Zambia's economy suffered a severe economic crisis; FY 1980-1984, a period of continuing economic deterioration; and FY 1985-1986, a period during which the GRZ undertook major economic reforms to stabilize, restructure and revitalize the economy.

From 1977 to 1979 the GRZ experienced severe financial difficulties due to continuing depressed world copper prices and the political and economic strains caused by the independence struggles in Southern Africa. The primary purpose of the PL 480 Title I program during this period was to provide balance of payments and budgetary support. Self-Help Measures (SHMs) mainly supported institutional and human resource development activities in the agricultural sector; no major policy changes were sought. Local currency generations supported the GRZ's agricultural and rural development budgets although specific uses of local currencies were not stipulated.

PL 480 Title I aid during this and the subsequent periods was as follows:

U.S. Economic Assistance to Zambia

FY 1977-FY 1986
(U.S. $ Million)

PROGRAM	FY 1977-1979		FY 1980-1984		FY 1985-1986		FY 1977-1986	
	$	%	$	%	$	%	$	%
ESF (CIP)	70.0	72	101.4	54	30.0	26	201.4	51
AEPRP	-	-	-	-	25.0	22	25.0	6
ESF Project	0.4	-	18.3	10	39.5	35	58.2	14
PL480 I	23.9	25	46.5	25	20.0	17	90.4	23
PL480 II	3.2	3	20.4	11	0.0	0	23.6	6
TOTAL	97.5	100	186.6	100	114.5	100	398.6	100

Source: AID Congressional Presentations FY 1981-FY 1986.

The table shows that PL 480 Title I comprised about one-fourth of total economic assistance to Zambia until FY 1985 when DA obligations increased substantially their relative share.

From 1980 to 1984, Zambia's economic situation continued to deteriorate. The GRZ responded by issuing a three-year investment plan to promote agricultural and rural development, and to diversify the economy. This prompted a transition in the AID program whereby balance of payments support would continue on a diminishing scale while project assistance gradually increased. The AID program aimed to increase food production and small farmer income. All program elements--ESF, DA and PL 480--were closely integrated to contribute these goals.

SHMs during this period centered mainly on policy initiatives to improve producer prices and reduce subsidies. Beginning in FY 1981, the CIP agreements included "support measures" which paralleled the PL 480 SHMs. PL 480 LCs supported policies to increase the productivity of small farmers and improve food distribution systems. However, a "special account" was not established and generations were accounted for by "attributions" to GRZ development budget items satisfying the above stated criteria.

The GRZ undertook a bold economic reform program in 1985 to restructure and "privatize" its public sector-dominated economy. This effort has won substantial support from the U.S. Government (USG) and other donors. The USG responded with a $25 million AEPRP commodity aid program (FY 1985) in exchange for major policy reforms, and a $15 million untied cash transfer grant (FY 1986) to support a foreign exchange auction program.

The FY 1985 PL 480 SHMs and CIP support measures were reoriented to complement the market liberalization measures negotiated under the $25 million commodity aid program. The cash transfer grant substituted for the CIP program in FY 1986. The new FY 1986 SHMs mainly filled in gaps not covered under the $25 million commodity agreement. Local currencies continued to be allocated by attribution to jointly agreed budget activities.

D. Self-Help Measures

The Mission processes for identifying, negotiating, implementing, and monitoring SHMs were given particular attention in this evaluation. USAID/Zambia's approach to identifying SHMs involved reliance upon analyses prepared in large part by outside consultants; recurrent use of the same consultants; a continuing informal dialogue with the GRZ and other donors; and establishment of a SHM committee to insure SHMs were well integrated into the mission's overall development strategy.

The negotiation process involved a mixed informal/formal approach whereby negotiations were pursued informally up to six months before the PL 480 agreement is signed. Only when the prospects were good for final agreement did the parties sit down to a session of formal negotiations. Policy dialogue took place at three levels: between the USAID Mission Director and the Permanent Secretaries of Finance and Agriculture; between the USAID technical staff and GRZ counterparts; and within the Ministry of Agriculture and Water Development (MAWD), between personnel assigned to USAID-supported projects and their Zambian counterparts.

Methods of monitoring implementation included the estabishment of benchmarks, the commissioning of in-house analyses, procedures for follow-up, and schedules for the disbursement of commodities and local currency.

The examination of these processes yielded several lessons learned that may be of interest to other missions, particularly smaller ones managing sizable programs. The following lessons learned are especially noteworthy:

o PL 480 Title I and overall program management can be facilitated if program activities are integrated and focused on one or two key objectives or sectors.

USAID/Zambia's PL 480 and other assistance programs were tightly woven and focused on increasing small farmer productivity and income. This permitted complementarities and "economies" of analytical effort in identifying SHMs and other program initiatives. It also enabled USAID/Zambia to strengthen its negotiating position. Once agreement was secured on one program, agreement proceeded more smoothly on other programs that followed.

On the other hand, integration can cause implementation delays if progress on one program is linked to that of another. For instance, the Ministry of Finance (MOF) was unsympathetic to a USAID request to improve monitoring of one program until USAID released funds under another.

o A small post can strengthen its analytical capability to identify SHMs through regular periodic TDY's of direct hire officers and consultants.

USAID/Zambia tended to use the same TDY personnel to assist in identifying and redesigning SHMs. This was advantageous because consultants arrived with a working knowledge of the country and an established rapport with key GRZ and USAID officials.

o Informal discussions with HG counterparts in advance of the SHM negotiations can provide insight into the host government's receptivity to contemplated SHMs. They also allow time for ideas and concepts to be vetted within the government.

USAID/Zambia held informal discussions up to six months before formal negotiations. Discussions were held at several levels ranging from the technician level to the cabinet level, and sometimes included the Economic Advisor to the President.

- <u>The SHM identification process can be strengthened in larger missions by appointing a committee to identify SHMs.</u>

  USAID/Zambia's Mission Director appointed a committee to identify SHMs. The members included the Assistant Director, the Regional Food for Peace Officer, the Agricultural Economist, and the Agriculture Officer. The committe prepared a matrix indicating the SHMs and measures negotiated under other programs. SHMs were eliminated that had been met or were likely to be met. SHMs which required continued emphasis were retained. Most important, the committee identified "missing pieces" that were needed to fill "gaps" not addressed in existing agreements.

- <u>Mixing informal and formal negotiating approaches can facilitate agreement and leave the host government feeling they were involved more in "dialogue" than "leverage".</u>

  The USAID/Zambia negotiating strategy shifted over time from a formal to a mixed informal/formal approach. Informal dicussions took place by appointment at the MOF and MAWD and during encounters at official or social functions. Only when prospects were good for final agreement did the parties engage in formal negotiations. One senior Zambian official compared this approach favorably to the stricter style of negotiation employed by the World Bank.

  A more informal approach is not without pitfalls. Negotiations can suffer if mission staff do not keep each other fully informed about their discussions with host government officials. To avoid this problem, Zambia's Mission Director prefered to lead policy negotiations himself rather than delegate this responsibility to other Mission staff members. Mission staff discuss policy issues with their GRZ counterparts but have had a more limited role in negotiations.

- <u>Projects provide useful mechanisms for supporting and implementing policy reform initiatives.</u>

  USAID/Zambia's development strategy offers an excellent example of integrating PL 480 Title I SHMs with other program activities. Implementation of

SHMs could be further facilitated if additional project aid were made available and if existing project aid were drawn upon to a greater extent.

- <u>Implementation and monitoring considerations should be part of the policy and program dialogues.</u>

  The GRZ viewed self-help reporting more in terms of a need to fulfill an AID requirement than as a useful device for improving its implementation performance.

- <u>SHMs should include specific benchmarks and deadlines to facilitate implementation and monitoring.</u>

  Over time, and to the credit of USAID/Zambia officials, SHMs have been expressed increasingly in terms of more precise evaluation criteria.

- <u>Measuring the degree of cause and effect between self-help commitments and host government policy reforms is difficult. Nevertheless a strong and continuing U.S. commitment to major policy reforms can produce successful results.</u>

  The evaluation team found a very high level of congruence between commitments contained in U.S.-GRZ agreements and GRZ performance. These commitments included measures to: improve research; reduce levels of spending on food subsidies, especially consumer subsidies; improve price incentives for farmers; increase private enterprise involvement in marketing; reduce input subsidies (with some variations); reduce or eliminate spending on subsidies for parastatals involved in marketing and transport; reduce the domestic budget deficit, and narrow the BOP gap.

- <u>Continuity of SHMs over a period of years probably is essential for successfully promoting policy reform.</u>

  As a general rule, individual SHMs should continue only minimally changed in annual agreements until the issue is satisfactorily resolved or until it is established that a poor choice was made originally in including the particular SHM.

  Continuity in the Zambian case has been outstanding, both taken alone and in conjunction with other U.S. assistance. The U.S. assistance program has focused heavily on the development policy theme, particularly on policies affecting agriculture and food. Policies receiving major emphasis included consumer, producer and input prices and their relationships to producer incentives and production; imports and the balance of trade; subsidy costs; and internal economic stability.

E. <u>Adequacy of Supporting Analyses</u>

Analyses supporting the Zambia Title I SHMs and other policy and program activities were conducted largely by contractors and TDY officials from REDSO/ESA and AID/W. IBRD and IMF studies were drawn upon as well. These analyses, together with "in-house" analyses by Mission professionals, constituted a substantial body of documentation upon which to base policy and program recommendations.

USAID/Zambia has been an exemplary Mission in terms of the amount of resources committed relative to the number of U.S. direct hire personnel. Nevertheless, this situation gives rise to the question of whether the quality of SHMs might have been improved had the USAID had more professional support from within and outside the Mission. From within, the addition of one or two professionals beyond those allowed would have seemed justified given the level of program resources. Outside the Mission, greater use could have been made of the analytical capabilities of the dozen TA's currently in Zambia on the ZATPID and ZAMARE projects.

Some SHMs received more supporting analysis than others. Substantial evidence was marshalled concerning the effects of subsidies and foreign exchange rates on the GRZ budget and balance of payments. Less attention was given to estimating the likely outcome of a) the decontrol of prices and the auctioning of foreign exchange, b) the opening of agricultural markets to private and cooperative traders, and c) the transfer of responsibility for agricultural inputs, including fertilizers, to the private sector. The following are illustrations of areas in which further analysis appears desirable:

- The capacity of existing rural enterprises to handle trade in agricultural commodities;

- The economic impact of grain market liberalization on small farmers;

- The efficiency of fertilizers in terms of the balance of chemical input and crop production; and

- The soil acidity problem and the potential for developing a limestone ^cessing and marketing capability.

F. PL 480 Local Currency Programming - Lessons Learned

Local currency (LC) equivalent to $82 million in Title I aid was generated from FY 1975 to FY 1985. Local currency generated under Title II totalled 28.3 million Kwacha. CIP programs generated the equivalent of about $200 million over the same period. In general, LCs generated under all loan-funded programs were "attributed" to jointly agreed items in the GRZ budget. All Title I and CIP programs were loans until FY 1984; no special accounts were established to program the resulting LCs. A shift was made to special accounts for CIP LCs as the USG provided CIP assistance shifted to a grant basis. The USAID and GRZ established a special account for LCs generated under grant-funded Title II programs beginning after 1979, just under NAMBoard and later under the MOF control.

PL 480 agreements through FY 1982 provided that LCs finance the SHMs and development activities in the agricultural and rural sectors. These agreements also placed emphasis on improving the lives of the poorest and their capacity to participate in the country's development. The FY 1983 agreement specified priorities to support agricultural price incentives, strengthen agricultural marketing infrastructure, and improve agricultural management and technical capabilities. The FY 1984 agreement added the strengthening of agricultural credit institutions and included cooperatives under the marketing infrastructure priority.

USAID and the MOF jointly reviewed the GRZ budget to identify and negotiate items for attribution. Reports of LC have tended to be perfunctory and USAID monitoring limited to insuring that it receives periodic attribution reports. USAID/Zambia has always considered the SHMs to be more important than the LC uses. As long as the GRZ performed on the SHMs, USAID placed little emphasis on LC use.

Lessons learned from Zambia's LC experience follow:

- <u>LC programming can be both an asset and a liability.</u>

  It is an <u>asset</u> if the host government perceives it as bringing additional resources permitting modification of uses in directions the recipient agency desires. It is a <u>liability</u> to the extent it reduces the budgetary authorities' control over the total allocation of resources and, as such, diminishes the value of the resources to these authorities. The real value of the resources, and the extent to which leverage exists, lies in the commodities financed, not the LCs.

  In the Zambian case, the GRZ viewed LC programming more as a liability and protected their authority over LC uses. The Government was concerned that other donors might argue for a special account if USAID insisted upon one. The GRZ feared this would spell chaos for the government's budgeting process to the extent this occurred. Further, the GRZ believed the Title I LCs were theirs to allocate because the Title I loans were repayable in foreign exchange.

- <u>Local currency programming can produce serious, possibly destabilizing uncertainty in the HG's budgetary process when LC generations are large compared to total resources and AID must approve LC uses.</u>

  USAID/Zambia adopted an attribution process for Title I LCs because efforts to program them (together with CIP LCs) would seriously distort the GRZ's budget and development priorities. Nonetheless, about K250 million generated from LC programs other than Title I will accumulate in special accounts over the next year or two. This is an amount equivalent to the GRZ's total 1984 development budget. In such cases, it may be prudent to require special account deposits only in amounts the mission can reasonably expect to manage. The balance would be accounted for by attribution.

PAKISTAN

EXECUTIVE SUMMARY

A. General

This report is the fifth in a series of five case studies aimed at identifying how PL480 programs can be better designed and managed to increase their developmental effectiveness. Pakistan's Title I program was chosen because it has had a very long period of continuous operation, called for sufficiently specific self-help commitments to permit an appraisal of effectiveness, and has been a major element of a US commitment, beginning in 1981/82, to a substantially expanded program of US assistance to Pakistan.

B. Country Background

Pakistan is a country of 95 million people with a per capita income of $390. In recent years, progress in increasing average per capita GNP has been impressive despite a population growing at 3 % per annum. The agricultural sector accounts for 24% of GDP and is the principal source of export earnings. It directly employs 51% of the active labor force. Growth in the agriculture sector peaked at 6.7% in 1979-80 and averaged 4.5% for the 5 years after that. Pakistan has been a major net exporter of cereals in recent years. The principal agricultural import is vegetable oil, which costs $500-600 million per year.

Pakistan's major macro-economic problems are:

- o a large merchandise trade deficit with exports covering only 43% of imports;
- o a growing debt service load;
- o a growing external debt which equalled $ 10 billion in 1984; and
- o a large budgetary deficit.

About 75% of the current trade deficit is financed by worker remittances and donor assistance, both of which are unlikely to grow in real terms. The US commitment of $ 3.2 billion in economic and military assistance over 6 years will come to an end in 1987. A new 6 year program of economic and military assistance worth $4.02 billion (of which $2.28 billion is economic aid) has recently been negotiated to begin in FY'88.

Recently Pakistan has moved in the direction of a transfer from military to civilian government. A new Cabinet with a civilian Prime Minister was announced in January 1985. This government recently announced major policy changes, which USAID had long been encouraging, in the edible oil sector.

C. Program Development

US food aid has been provided every year since 1952 and has totalled approximately $ 2.6 billion over 34 years, most of which has been offered under Title I. The principal commodities provided have been wheat and vegetable oil. PL 480-generated LC resources have been a major factor in promoting agricultural growth and industrial development, but PL 480 financing also contributes to a rapid growth in vegetable oil (ghee) consumption, and import dependence. SHMs have concentrated in early years on wheat. Vegetable oil-related policy issues, have been the main focus in recent years. There has been some shifting in the focus of self-help measures over the years between wheat and vegetable oil as one or the other appeared to present a more critical problem. A decline in the wheat output growth rate in the early 1970s, owing in part to complacency (self-sufficiency was then in sight), and a false rust scare in 1978 again turned attention to wheat. In 1981, after vegetable oil had again returned to the forefront, a team assembled by USAID helped design an oilseed and vegetable oil program to address the problem of rapidly-growing vegetable oil imports. However, opposition to US assistance for oilseed production was organized by an American Soybean Association lobbyist, with the end result that SHMs and US support for the vegetable oil sector focused on oilseed and oil pricing, marketing and processing liberalization, and the livestock industry (as the principal consumer of oil seed cake and meal). The current understanding is that while AID can support and promote policy reform, direct effort to increase oilseed production will be left to the GOP.

D. Self-Help Measures

SHMs have been identified within the context of overall development assistance and the continuing informal, low-key dialogue between USAID/Pakistan and GOP officials on subjects related to Pakistan's development needs. Various studies over the years have helped guide SHM development. The USAID also consulted with other donors, notably IBRD, on policy reform measures needed. In addition, USAID/Pakistan relied on outside assistance to develop a strategy for PL480 and vegetable oil in 1981 and to conduct two major studies in 1982-4 to orient the development of measures to alleviate dependence on imported vegetable oil. Both major studies are well done, with the second being more sharply focused on marketing and stock management and a higher quality product. A seminar which became an important part of the policy dialogue, drawing significant GOP participation, was based on results of these studies. The primary HG entity involved in SHM identification and analysis is the Economic Affairs Division (EAD) of the Ministry of Finance. EAD shares draft SHMs with other concerned GOP agencies.

After 34 years, the negotiation process is both understood and established. Each side knows the limits of the other. Informal discussions of draft SHMs set the stage for later formal negotiations. The process usually begins at the beginning of the fiscal year. While an attempt is made to achieve an agreement by the end of the calendar year, signing almost always takes place in the spring. Real differences do emerge during negotiations. The USG has apparently won points of difference in the past but is careful not to table measures that the GOP will not be able to accept. Pakistani negotiators have held a strong card in recent years, owing to a US multi-year commitment to a large and specific assistance level.

Washington recently has played a critical role in PL 480 decision making and has affected the integration of PL 480 with other development assistance by ruling out direct support to oilseed production. While the GOP may regret this US decision, they do understand the fact of domestic political pressures. There is, however, still some sensitivity to advantages accorded to India that are not given to Pakistan; one being, in this case, the more generous support of the vegetable oil sector under PL 480 Title II in India.

In April the civilian Cabinet of Prime Minister Junejo announced several important policy measures, most of which the USAID has long encouraged, to reduce controls on the vegetable oil and vegetable ghee industry. These measures include:

- the removal of price controls on vegetable ghee and edible oil;
- the elimination of private sector import restrictions for both palm and vegetable oils;
- levying of a variable import duty (initially Rs 3,000 but subsequently lowered to Rs 2,350 per MT owing to an increase in world prices) in lieu of the excise tax and import surcharge previously levied on vegetable oil

imports. Unlike the previous system, the variable duty is designed to equalize import costs with the domestic support price;

- existing private ghee production factories will be permitted to produce at full plant capacity whereas before April, production quotas often limited them to operating at 1/3-1/2 capacity.

The government continues to retain its prerogatives of licensing new ghee producers and permitting existing private producers to expand operations.

Over the approximately two decades that SHMs have been required, the GOP has taken its commitments seriously and has tried hard to implement them, but there have been some recurring problems:

- the GOP has periodically imposed restrictions, which US officials generally felt were either too severe or unnecessary, on private wheat trade and on private interdistrict grain movement in times of shortages;

- the GOP has occasionally delayed overlong in adjusting wheat and wheat flour prices; and

- the GOP has at times appeared to pay less attention to the implementation of the vegetable oil strategy it had developed than US officials felt was desirable, given the magnitude of the problem.

Methods of monitoring include the reporting system (use of proceeds reports and self-help reports), and more informal methods, such as discussions between relevant officials. Benchmarks and reporting requirements have both become more complex over time. The latter have to some extent distracted from the SHMs and are also out of "sync" with the general flow of GOP business.

The examination of these processes yielded several lessons learned. The following are especially noteworthy:

- <u>USAID technical offices should participate in the policy dialogue.</u>

The PL 480 policy dialogue, which has focused on agriculture, was facilitated by drawing on expertise from the Agriculture Office and by use of other fora and activities in agriculture to support and sustain the dialogue.

- <u>PL 480 should be integrated with other US assistance to the extent feasible.</u>

This has been hampered in the Pakistani context recently owing to the decision that USAID would not support oilseed production directly. However, prices and price incentives, which have been a major subject of PL 480 discussion, have been key factors in promoting agricultural growth. In general, SHMs related to vegetable oil are tied only to PL 480, while those in other areas, such as fertilizer, are also tied to issues relevant to CIP or other assistance. Considerable PL 480 LC have been used for research and water development, as have other aid funds. The FY'86 program includes new SHMs calling for studies on agribusiness and small farmer credit. These studies will support possible new USAID programs.

- <u>A low profile in policy dialogue can work.</u>

Pakistani and US officials have maintained good working relationships, and evidence indicates that many policy improvements do correlate with suggestions put forth by USAID personnel. US assistance to agriculture has been substantial and on the whole well managed, and both the assistance and the counsel of US agriculture personnel have been highly valued by Pakistani officials.

- <u>Continuity in SHMs is important.</u>

There has been considerable continuity in the Pakistani context, with sustained attention devoted to wheat and vegetable oil. This continuity has helped reinforce US seriousness in GOP eyes. However, there have been a few sharp shifts in attention from one commodity to the other which had the effect of slowing progress with respect to oil. Wheat production, the principal crop and the longest-lasting theme, also suffered some ups and downs, but benefited from greater continuity of US assistance and support and, of course, from being the number one GOP food concern. Some of the changes in SHMs have reflected changes in the actual urgency or the perception of urgency of different problems, while others reflected changes in personnel on the US side or shifts in the political winds in Washington.

- <u>Simplicity and a sharp focus on self-help conditions is very important.</u>

When the number of themes reflected in SHMs or the number of SHMs themselves increases, attention paid to each declines sharply. The inclusion of a great many and/or very complex benchmarks for even two or three SHMs has a similar effect. For example, in 1979, when there was a shift from vegetable oil as the only SHM to the addition of five new measures, this was interpreted by many GOP officials as a downgrading of the oil issue. Further unease was caused by the fact that the previous year's multiple oil-related SHMs had basically been combined in a single new SHM, also seeming to downgrade oil as a concern.

o <u>Opportunities to develop clear multiyear programs should be used</u>.

Pakistan is one of the very few countries where there is a specific PL 480 multi-year aid commitment. However, USAID/Pakistan did not develop a multi-year strategy with a scheduled implementation plan to accompany the commitment and perhaps lost an opportunity to strengthen its program. In part, the AID decision was the result of limitations on the Mission's ability to be responsive in the oilseeds sector. In late 1984, however, the AID Mission did develop a multi-year framework, which serves similar purposes, to guide negotiations and agreements.

o <u>Reporting requirements should be straightforward and appropriate guidance should be provided</u>.

Donors in Pakistan as elsewhere have different reporting formats and schedules. Together, these may become so time-consuming for the host government that officials spend time that should more properly be devoted to policy, on reporting and monitoring progress instead. Both USAID and GOP officials report that complex reporting requirements have created a misdirected emphasis that has frustrated HG personnel and detracted at times from the implementation of SHMs.

E. <u>Local Currency Programming</u>.

In the 1980 PL 480 Agreement, the GOP and the USAID established procedures for managing LC that keep the USAID from seeming to play too great a role in the GOP budgeting process. Local currency is now credited to a separate subsidiary account in the Consolidated Federal Fund (budget), which is debited as funds are disbursed. The agreements call for LC use consultations to take place within two weeks of signature. An attempt is made to synchronize LC allocations with the GOP budget cycle. The AID Mission, in discussion of local currency use, has opened a dialogue on budget allocations for areas such as primary education, family planning, agricultural universities and research, and irrigation systems maintenance. The evidence suggests that the availability of PL 480 LC has resulted in increases in commitments of resources to the population program and increased allocations to agricultural universities and to research at the provincial and central levels.

Since the view prevails that LC is a Pakistani resource, the GOP is responsible for ex post audit and evaluation. The USAID does not become involved in this process except in connection with US-assisted projects that also receive LC. However, the USAID does use the opportunity presented by the LC use consultations to open a dialogue on sector priorities, and it does review and evaluate the budget aspect.

Some of the important lessons learned are as follows:

o <u>Large amounts of PL 480 LC can cause programming problems particularly for the HG.</u>

As in Zambia, the large amount of LC in Pakistan from PL480 and other aid can generate friction and resentment over US involvement in programming. That involvement represents foreign control of a significant portion of the flexible budget and also creates uncertainties since US decisions could upset otherwise sound budgeting practices. The decision in Pakistan to treat CIP imports for the public sector as direct budgetary transfers for which the SOP is not required to deposit a local currency equivalent helps reduce the burden. The recently developed approach of attribution with some effort to increase allocation to a few carefully selected areas in priority sectors seems very appropriate in these circumstances.

o <u>Local currency programming can be made more effective by conforming substantially to the HG budget cycle, fitting procedures to those used by the HG and, in general, permitting the LC to be managed as simply as possible given the HG systems of accounting and audit.</u>

Over the years, the USAID in Pakistan has worked with the GOP to design and implement approaches which do conform substantially to GOP practices. This has facilitated program inplementation, especially since such large amounts of local currency sales proceeds are involved.